

Social Justice and Social Security Committee Debate: Robbing Peter to Pay Paul – Low Income and the Debt Trap Briefing

October 2022

Introduction

The current cost of living crisis is pulling more people into debt with research from the Money Advice Trust showing that one fifth (21%) of UK adults were behind on household bills in August 2022, up from 15% in March 2022.¹ Those living on low incomes are more likely to be in debt with around half of low and middle-income households having at least one debt compared to just less than two in five high income households.² The number of households in debt and financial strain is increasing rapidly, threatening to pull more into debt and poverty demanding urgent and radical action.

Key Recommendations

- Ensure that income from social security and work provides an adequate income for all in Scotland to live a decent life and prevent debt from occurring.
- In acknowledging the role that debt plays in locking people into poverty, work with local authorities, lenders and landlords to introduce debt forgiveness schemes for those struggling with debt repayment.
- Invest in greater awareness training for those in the medical profession regarding the role debt plays in poor mental health and better link the health and debt sector.
- Fight poverty related stigma through communication campaigns and poverty awareness training for front line service providers.
- Raise awareness of benefit entitlement and debt support through mass media campaigns, on a similar scale to that of the vaccine roll out.
- Take a more strategic approach to increasing the availability of alternative, ethical, affordable sources of credit for people living on low incomes.

Tackling Debt at the Source

Research by Institute of Public Policy Research (IPPR) underlines the clear link between debt, inadequate incomes, and the high cost of living.³ Initial findings from forthcoming research on women's experiences of the cost of living crisis shows that inadequate incomes through the social security system and low-paid work were the principal instigating factors behind debt.⁴ Women in debt shared that their already stretched incomes would make paying back debts very challenging or feared that they would end up accumulating more debt⁵.

¹ Impossible Choices (2022) Money Advice Scotland. 2022.

² Poverty in Scotland 2022. Joseph Rowntree Foundation.

³ Helping Households in Debt (2020) Institute for Public Policy Research.

⁴ Women's experiences of the Cost-of-Living Crisis in Scotland, Scottish Women's Budget Group and Poverty Alliance. Initial findings. Unpublished (forthcoming).

⁵ As above

Action to tackle debt must be framed and delivered as part of anti-poverty policies. A primary solution to solving debt problems is to provide everyone in Scotland with access to a secure and adequate income to prevent people from falling into debt. For this, focus must be on increasing incomes through social security by increasing benefits in line with inflation and increasing the Scottish Child Payment to £40, and through paid employment by incentivising the provision of secure and adequate hours at a wage level set at least the real Living Wage. Likewise, we need to ensure that people are aware of what support they are entitled to and encouraged to apply for this. Our research has shown that the lack of awareness of benefits and entitlements is preventing people from receiving an adequate income; thereby exacerbating levels of debt.⁶ The Scottish Government should – recognising the way in which this debt can lock people into poverty, as well as ongoing stress and anxiety – work with local authorities, lenders and landlords to develop write-off schemes that will ease this pressure and allow people to move on with greater financial security. This is crucially important for the duration of this cost of living crisis in order to ensure people on low incomes are able to afford essentials.

Mental Health

For those facing debt, it can be overwhelming, isolating and in some cases bring on feelings of depression, anxiety and even suicidal thoughts.⁷ Evidence from Christians Against Poverty showed that 36% of those in their most recent client survey had contemplated suicide as a means of escaping debt.⁸ The link between poor mental health and debt is well established however approaches to addressing these issues are often siloed with services aimed at *either* tackling mental health *or* tackling debt. To break this cycle, mental health support must be embedded with debt and money advice. This goes further than embedding mental health workers in advice centres and vice versa (although this would be welcome) but also links to how we train our medical practitioners. Greater awareness training for those in the medical profession regarding the role debt plays in poor mental health would be one welcome step in this regard.

Stigma

Related to the above issues of inadequate incomes and poor mental health, work must be done to tackle poverty related stigma. The stigma associated with being in poverty and the services providing support for those surviving on low incomes sees people refrain from discussing their financial concerns and hesitate reaching out for support. This is evidenced by data from CAP showing that 50% of clients for their debt help service surveyed waited over a year to reach out for help and 25% waited over 3 years.⁹ When asked why they waited to seek help, 66% said they felt embarrassed and 58% said they felt ashamed. To tackle this, the narrative about poverty must be changed through communication campaigns and investment in poverty awareness training for those who have direct engagement with people living on low incomes including debt advisors, administrators of

⁶ Child Poverty Delivery Plan 2022-26: Voices from our Communities. (2022) Poverty Alliance.

⁷ Money on your Mind (2016) The Money and Mental Health Policy Institute.

⁸ On the Edge; Client Report (2022) Christians Against Poverty.

⁹ See 7

social security and those working in public services e.g. local authorities, elected representatives, education practitioners, and medical professionals.

Awareness and Availability of Support

Lack of awareness of what support was available for people is a significant issue. Research by CAP noted that 52% of clients surveyed didn't reach out for support as they didn't know where to go to get help. Similar findings were noted in StepChange's research showing that for individuals who did reach out for support, many found identifying sources of advice that were credible and legitimate was difficult due to encounters with imposter firms (firms mimicking not-for-profit advice agencies). Moreover, for those who could find credible sources of advice then found difficulty in navigating the amount of financial jargon linked to debt relief.¹⁰

Affordable, Safe Credit

There is also a significant lack of awareness on the availability of affordable credit options. As access to high cost credit such as payday loans has been reduced, there is a danger that some people on low incomes turn to more risky forms of debt, such as door step lenders and loan sharks. More should be done to support Scotland's network of Credit Unions and to scale up our approach to Community Development Finance Initiatives (CDFIs).¹¹ As part of the response to problem debt there is a need to take a more strategic approach to increasing the availability of alternative, ethical, affordable sources of credit for people living on low incomes.

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Who we are

The Poverty Alliance is Scotland's anti-poverty network. Together with our members, we influence policy and practice, support communities to challenge poverty, provide evidence through research and build public support for the solutions to tackle poverty. Our members include grassroots community groups, academics, large national NGOs, voluntary organisations, statutory organisations, trade unions, and faith groups.

¹⁰ Making Ends Meet; Insights from StepChange advice clients (2022) StepChange.

¹¹ Carnegie UK Trust (2021) Advancing Affordable Credit.