

The Social Fund: Current role and future direction

The discretionary Social Fund, which comprises Community Care Grants, Budgeting Loans and Crisis Loans, is meant to help people on a low income meet one-off expenses on necessities and cope with emergencies. This study – by Kate Legge, Yvette Hartfree, Bruce Stafford, Monica Magadi, Jacqueline Beckhelling, Line Nyhagen Predelli and Sue Middleton – explores the current role of the Social Fund in reducing poverty and social exclusion and its reform. It finds:

- The Social Fund can help some people on a low income with expenses that they could not otherwise meet from their regular income. Three groups that are more likely to receive the Social Fund are families with dependent children, disabled people and tenants of social landlords.
- Two groups – pensioners and households headed by a member of an ethnic minority – are less likely to get a discretionary Social Fund award.
- People living in rural areas can face additional living and transport costs: a Social Fund award can have a less positive impact for recipients in rural areas.
- People's needs are often not being met when applications are refused or only a partial award is granted. Where awards are made they are welcome, but their contribution to reducing poverty is minimal because loans have to be repaid from benefits and recipients have many other unmet needs. The average repayment rate was eight per cent of weekly income, often higher for families with children.
- The researchers conclude that, in its current form, the Social Fund is making only a limited contribution to meeting the Government's objectives of combating poverty and social exclusion. They make the following recommendations for improvement (indicative estimated costs, based on published data, are shown in brackets):
 - In the short term: improvements to the existing scheme, such as same-day decisions on applications for a Crisis Loan, rather than the current two-day target.
 - In the longer term: the replacement of the existing discretionary scheme with five new types of award: Regular Winter Grants (£875.6 million), Regular Start of School Grants (£176.7 million), Essential Items Grants (£29.5 million), Interest-free Loans (£32 million) and Crisis Loans (£13.9 million).



Background

The Social Fund began in 1988 and remains a controversial part of the social security system. The discretionary Social Fund has three elements: Community Care Grants; Budgeting Loans; and Crisis Loans. Community Care Grants are intended to help people in specific circumstances to live independently in the community. Budgeting Loans are repayable, interest-free and designed to help people spread the cost of high expenditure items, such as household equipment, furniture and clothing. For both of these, applicants must be eligible for Income Support, income-based Jobseeker's Allowance or Pension Credit. Crisis Loans are repayable and interest-free, and are designed to assist people who need to meet expenses in an emergency or as a consequence of disaster. They may be available to anyone where they are the only means of preventing a serious risk to health or safety.

For the loans, the maximum amount borrowed depends on recipients' ability to repay and the likelihood of repayment, up to a maximum of £1,000. The amount of the weekly repayment rate is determined by the recipient's weekly income and other commitments.

Applicants dissatisfied with the outcome of their application may request a review of the decision.

This study examines the effectiveness of the Social Fund, drawing on administrative and survey data and on focus groups with applicants, eligible non-applicants and members of the wider public.

Experience of living on benefits

In general, people living on means-tested benefits have sufficient income to pay basic utility bills and purchase low-cost food. However, benefits do not provide a sufficient income for them to have items that society in general expects to be able to have, or to participate in the everyday activities enjoyed by their contemporaries. They struggle to pay for clothes and shoes, children's school trips and activities, going out, holidays, gifts, or replacing household items. These unmet needs are not one-off, intermittent expenditures or emergencies, but are more persistent and regular. Social Fund recipients are more likely to have other debts from finance houses, hire purchase agreements and club credit than non-recipients, indicating that recipients have to meet needs from other sources.

Even with careful budgeting, benefit recipients lack the income to meet all their needs. Recipients in the qualitative research said that when they have an immediate need but no money their main options are:

- using savings;
- asking family members for help;
- borrowing money from families or friends that had to be repaid;
- cutting back on expenditure even further by, for example, going without meals or heating and not paying utility bills;
- taking out loans with home collected credit agencies or buying on credit through catalogues or hire purchase;
- applying to the discretionary Social Fund;
- selling (non-essential) possessions such as a TV or car;
- seeking help from a charity; and
- various forms of crime and fraud.

Preferences for using the above options varied depending on individuals' experiences, attitudes and circumstances, although using savings and asking friends and family tended to be used in the first instance before other options were considered.

Recipients' characteristics

Recipients of the Social Fund are more likely to: be families with children (for Budgeting and Crisis Loans); be aged under 45 years; live in social or private rented accommodation; be, or live with someone who is, a disabled person; have two or more dependent children (Budgeting Loans only); and live outside of southern and eastern Britain (Budgeting Loans only). Those less likely to receive a discretionary Social Fund award are: pensioners; and households headed by an Asian, Asian British, Black or Black British person (Budgeting Loans only).

People's experiences of awards

The Social Fund reduces the material deprivation of those who are successful in receiving an award and in this sense can be seen as contributing towards reducing poverty. Social Fund loans are used to buy necessities such as furniture, carpets and appliances. However, most applicants said that it had not helped them meet their needs – often applications were refused or only a partial award was granted. Administrative data shows that in 2004/05 the average amounts awarded were: £390 for Community Care Grants; £405 for Budgeting Loans; and £78 for Crisis Loans. The consequences of being refused or given a partial Social Fund award are that applicants have to turn to the other options listed above, in some instances, leading to increased indebtedness or needs that remain unmet.

This research also shows that people living in rural areas can face additional living costs and transport needs. Thus a Social Fund award can have a less positive impact

in reducing poverty for a recipient living in a rural area if they are unable to buy a product locally and have to travel to reach shops selling the item at a lower price.

Repaying loans

A major criticism of the Social Fund is that the repayment of loans from benefits further reduces the income of some of the poorest members of society. Loans are often repaid within 78 weeks, and the rate of repayment can be between five and 15 per cent of weekly income depending upon personal circumstances. Analysis of national survey data shows that the average weekly repayment was £10 (median £9), but could be as high as £45. The average repayment rate was eight per cent of weekly income. As families with children tend to borrow more than other groups, they also tended to repay more per week and at a higher repayment rate, implying that children are at increased risk of poverty.

The main issue for successful applicants is not the principle of having to repay a loan whilst living on a low income but the level of the repayment, which is felt to be too high. For benefit recipients, the impact of loan repayment deductions is that they have to economise even further and have no choice but to manage on less income.

Research participants' views on reforming the Social Fund

Participants in the qualitative research strongly argued that eligibility for discretionary Social Fund awards should be extended to recipients of other benefits (notably Incapacity Benefit, Disability Living Allowance and Carer's Allowance, and contribution-based Jobseeker's Allowance for Community Care Grants and Budgeting Loans) and to people in low-paid work. Participants found it difficult to determine an income threshold for eligibility. They were also in favour of abolishing the rule that people must be in receipt of a qualifying benefit for six months before being eligible for a Budgeting Loan.

There was also strong support for grants rather than loans because grants did not make people worse off. Nonetheless, Social Fund loans were seen to have some advantages: they were a welcome alternative to other forms of credit; they encouraged budgeting and care in expenditure decisions; and could be repaid when in employment.

Social Fund awards are usually made as cash payments, and the participants discussed other forms of payment, in particular the use of vouchers. Whilst the shortcomings of a voucher system were acknowledged, including the risk of stigmatising users, participants saw some merits to the

proposal. Their support was in part because they believed that vouchers would reduce the potential for misuse of the current Social Fund scheme, and that vouchers would cover the full cost of items, and so overcome the problems encountered by partial cash awards.

Participants wanted awards to cover the costs of new items rather than second-hand or reconditioned goods. Views on whether the goods should be bottom or middle of the range varied.

Policy recommendations

Based on this research, the researchers recommend some immediate reforms to the existing scheme:

- Quicker processing times for applications – same-day decisions for Crisis Loans and decisions on Community Care Grants and Budgeting Loans to be made within five working days.
- Lower and negotiable loan repayment rates – although the rules on repayment rates are changing, applicants need the flexibility to negotiate a repayment rate and term, and to make adjustments as circumstances change.
- More publicity about the review process and a quicker review process (for instance, a target of five working days for cases that are straightforward and do not require further evidence gathering).
- More publicity in general about the Social Fund, so that benefit recipients are more aware of the scheme.

In addition, the researchers conclude that a more fundamental review of the scheme is required. The evidence that repayment of loans leads to hardship suggests that any new scheme ought to be more grant-based than the present system. A replacement scheme will require substantial extra funding, not least because the current scheme is not meeting all the demands placed upon it: the researchers used published data to estimate annual indicative costs of changes they propose.

The researchers suggest that a generally agreed list of 'essential items' for which people with a low income have a right to receive grants should underpin the new system. Other items of expenditure or need will be met by (interest-free) loans.

The research team propose that the existing discretionary scheme be abolished and replaced with:

- **Regular Winter Grants** to support people with additional winter expenses such as fuel bills. The amount of grant paid would vary according to household size, with larger households receiving more. (Annual cost: £875.6 million.)

- **Regular Start of School Grants** to assist parents of school-age children with buying school uniforms, shoes and equipment. Financial assistance at the start of the new academic year would help reduce poverty and the stigmatisation and social exclusion children can face if they do not have the correct uniform or equipment. (Annual cost: £176.7 million.)
- **Essential Items Grants** to help with the cost of buying essential household items such as furniture, furnishings and appliances. Awards would be made according to the circumstances of individual applicants. Although this grant would be discretionary, this proposal is based on the assumption that every household is entitled to have its needs for basic necessities met, such as a bed, carpets, cooker etc. (Annual cost: £29.5 million.)
- **Interest-free Loans** to enable people on low incomes to buy items and participate in activities that foster social inclusion but are not covered by the grants proposed above. The size of loan awarded would depend on household income and affordability, taking into account any existing debts and repayment rates. Repayment rates would be negotiable, to be set at levels according to applicants' ability to repay. (Annual cost: £32 million.)
- **Crisis Loans** to assist in emergencies. As under the current scheme a discretionary interest-free Crisis Loan component is proposed to help people in emergencies and to reimburse people for emergency expenses. (Annual cost: £13.9 million.)

Grants and loans would be available to all benefit recipients (including those in receipt of Incapacity Benefit, Carer's Allowance and contribution-based Jobseeker's Allowance) and those on a low income – defined as being in receipt of Working Tax Credit.

About the project

The research comprised three strands: a brief literature review; secondary analysis; and qualitative research. The secondary analysis used two national surveys, the Family Resources Survey and the Expenditure and Food Survey. For each survey a combined dataset of the most recent three releases (2000-2001, 2001-2002, and 2002-2003) was created to ensure that there were sufficient cases for analysis. Analysis of these data sources was supplemented by Department for Work and Pensions administrative data. The qualitative research involved a series of focus groups to explore how households deal with times of particular financial hardship and the role of the Social Fund from the perspective of applicants and eligible non-applicants. Policy groups were also held with those eligible for the Social Fund, as well as members of the wider public, to explore policy options for the reform of the Social Fund. In addition, a one-day workshop was held with representatives from the focus groups to consider policy options for the reform of the discretionary Social Fund. The participants in the qualitative research lived within the same Jobcentre Plus district as this ensured that they experienced a similar Social Fund 'regime' and other sources of support in times of hardship. Whilst the research was based in just one Jobcentre Plus district, it is expected that the views and experiences of participants would be found in other districts.

For further information

The full report, **The Social Fund: Current role and future direction** by Kate Legge, Yvette Hartfree, Bruce Stafford, Monica Magadi, Jacqueline Beckhelling, Line Nyhagen Predelli and Sue Middleton, is published by the Joseph Rowntree Foundation.

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