

**CHILD
POVERTY
ACTION
GROUP**

One parent families
GINGERBREAD
making change happen



The social fund: a new approach

Response to the Department for Work and Pensions
consultation on the social fund

December 2008

Key points:

- The Social Fund currently serves many of the poorest families in the country. The reason why they need to access the fund is because they are living on incomes well below the poverty line, on which it is extremely difficult to cover unexpected costs.
- While we support the development of credit unions, their coverage of the country is patchy, and it is unclear whether they have the appropriate structures to ensure fairness in decisions about loan entitlement.
- We welcome the desire to link the Social Fund with the provision of better financial advice, although note that most applications are made due to a lack of financial resources, not an inability to manage these. Better linkages with financial advice do not depend on the Fund being delivered by a third sector organisation.
- The initially proposed APR of 26.8% on social fund loans would have been punitive. We welcome the Government being clear that it does not intend to charge interest on social fund loans – it would be wrong for those who can least afford credit to pay most for this.
- We would welcome proposals for how to extend low or no cost credit to those in in-work poverty. However, the current proposals do not appear to achieve this goal.
- We welcome the proposal for advance payment of benefits in order to assist claimants facing immediate hardship.
- No evidence has been presented to suggest that Social Fund grants are being wrongly targeted. Rather than 'refocusing' the grants budget, we would like to see an extension of the role of grants in meeting families' essential needs.
- The proposals to merge crisis and budget loans require further assessment of the advantages and disadvantages before proceeding.
- Reform of the Social Fund is long overdue. But reform must be based on a clear evidence base, and requires more than three weeks for consideration. We hope that the Government will think again about the nature and pace of change.

Introduction

The Department is consulting on a new approach for the social fund and our organisations (Family Action, Child Poverty Action Group, One Parent Families| Gingerbread and Save the Children) have authored a common response because we share ground in wanting to protect the elements of the fund which are of most importance to poor families in the UK and in proposing positive improvements which would support reducing child poverty.

As the Department's own research has shown, the Social Fund is already targeted on the very poorest families in the UK.

“Very few Income Support recipients tended to have money over at the end of the week or month, but Social Fund customers were more likely than other Income Support recipients to say that they never had money over. The majority of Social Fund customers had experience of running out of money *before* the end of the week”¹

Over half of children in families claiming income support live in poverty on the Government's preferred 'before housing cost' measure (three quarters were poor using our preferred 'after housing cost measure') whilst nearly three in five children experienced material deprivation;² families accessing the social fund are an even poorer subset of this population and Government needs to tread carefully when dealing with this particularly vulnerable group.

To be clear at the outset: the Social Fund is vitally important for many of the poorest families but it needs reform, it is deeply wrong, for example, that it is possible to be too poor to have access to social fund loans. The administration needs improvement; decision making made less opaque; the post code lottery ended (through a national budget and lifting the cash limit) and the scope widened. For brevity we have not gone into detail here on other problems and these do not seem central to the Consultation document, we and others have described these elsewhere.³ We recognise there have been some improvements in the operation of the scheme (most recently the removal of the double debt rule) but in the words of Citizens Advice the social fund remains 'unfair and underfunded'.⁴

We do not understand the rationale for the sweep of these proposals which do not seem to save Government money (proposals are implied to be cost neutral); appear to state that extending the scope of low cost credit is the ambition yet do not give a clear assurance this would happen any time soon but do cut access to grants and initially proposed to introduce a new interest rate of up to 26.8 per cent on loans. This response was drafted before Government clarified its approach:

We are absolutely not proposing to charge interest on social fund loans. I think that would be the wrong thing to do. We do propose expanding the way that crisis loans work, to make them more available to more people, but we are not proposing charging interest (Kitty Ussher MP⁵)

¹ See N Finch and P Kemp, 'The use of the social fund by families with children', Department for Work and Pensions, 2004 In house report 139

² Department for Work and Pensions, Households below average incomes series an analysis of the income distribution 1994/95 -2006/07, National Statistics, 2008

³ See Child Poverty Action Group, Family Welfare Association, Help the Aged, One Parent Families and Save the Children, 'Reform of the Social Fund, submission to the Work and Pensions Select Committee', April 2007; M Howard, 'Lump Sums Roles for the social fund in ending child poverty', One Parent Families, Family Welfare Association and Child Poverty Action Group, 2003; A Barton, 'Unfair and underfunded, CAB evidence on what's wrong with the social fund', National Association of Citizens Advice Bureaux, 2002; N Finch and P Kemp, 'The use of the social fund by families with children', Department for Work and Pensions, 2004 In house report 139; K Legge, Y Hartfree, B Stafford, M Magadi, J Beckhelling, L N Predeilli and S Middleton, 'The Social Fund current role and future direction', Joseph Rowntree Foundation, 2006

⁴ A Barton, Unfair and underfunded, CAB evidence on what's wrong with the social fund, National Association of Citizens Advice Bureaux, 2002

⁵ Quoted in B Brogan, 'Ministers in humiliating U-turn on 'loan shark' plan for the poor, Mail on Sunday, 22nd December 2008, www.mailonsunday.co.uk

We recognise and welcome this clarification. The text of this submission nevertheless (largely) addresses the consultation document rather than later statements.

Though our organisations are pleased to contribute to the consultation, it is extremely short (three weeks of consultation – one quarter of that stipulated in Government's the Code of Practice on consultation⁶). This stands in marked contradiction to the 10 years of relative inactivity on the fund. We see no evidence the Department has sought the views of claimants, and are disappointed that the considerable quantity of research on the social fund has not been referenced. The consultation proposes major change to a fund upon which some of the very poorest families in the UK rely; a three week consultation process is inadequate and Government should slow down.

Partnership with third sector

Centrepiece of the consultation was to outsource loans to credit unions and to initially apparently to introduce up to a 26.8% interest rate on loans which hitherto have been interest free. The clear desire through contracting with credit unions is to improve access to financial advice for those accessing social fund payments. We take each proposal in turn.

Outsourcing loans to credit unions. Our organisations support a stronger credit union movement and we recognise Government interest in developing the network but this should not be done by compromising the delivery of the social fund. Equally we are concerned that parcelling off social fund loans to the credit union is a change of direction for that sector and may subvert what it is already good at. The Department recognises that credit unions are patchy and that it will not be possible to outsource loans in all parts of the country so it is clear DWP will still need to retain a publicly provided social fund loans function. However there are a number of specific problems with delivery of state services through the Credit unions which Government will need to consider:

- Though the credit union network has grown membership is a tiny fraction of the population (1% of population) and concentrated in specific areas (with highest activity in Northern Ireland and Scotland).⁷
- At the end of 2004 there were 779 credit unions in the UK with a total membership of 814,538,⁸ working out at an average of 1,046 members per scheme – this is an average with many credit unions being very small and ill equipped to deal with the complexity of social fund loans.
- Credit unions are variable in the efficiency and quality of how they are run (for instance with differences dependent on scale, internal management structures and reliance on volunteers). There are strong performers but also many small badly run organisations which may fail.⁹ Decision making processes around providing a public service would need to be clear and open to scrutiny, meaning government needs to be extremely careful about the regulatory framework in which credit unions or other third sector lenders operate.

⁶ See Cabinet Office, Code of Practice on Consultation, 2004

⁷ See P Goth, D Mckillop and C Ferguson, *Building better Credit Unions*, Joseph Rowntree Foundation 2006

⁸ See P Goth, D Mckillop and C Ferguson, *Building better Credit Unions*, Joseph Rowntree Foundation 2006

⁹ See P Goth, D Mckillop and C Ferguson, *Building better Credit Unions*, Joseph Rowntree Foundation 2006

- The social fund is a public service, and access should be provided equitably across the country. The combination of a cash limited devolved budget has already produced a postcode lottery, likely to be worsened by contracting out provision to multiple providers. The impact assessment does not consider the risk of discrimination with some groups having differential access yet experience suggests that in small, often weak organisations (and particularly ones with a club 'membership' ethos) discrimination is a serious risk.
- Credit unions providing budgeting or crisis loans would mean their having access to detailed personal and financial information about others in their communities. This raises serious issues of confidentiality, and of vulnerable people being put off applying because of having to reveal information to others who may well be their neighbours.
- Assessing entitlement for social fund loans is a complex undertaking (as witnessed by the work of the Independent Review Service)¹⁰ it is very unclear credit unions are equipped to take these sorts of complex discretionary decisions, not only about credit worthiness, but about need. No discussion is given over in the Consultation paper to reviews or appealing decisions, we would like more information on what Government proposes.

Connecting people with financial advice. Part of the logic of the proposal to link with credit unions is that it increases access to financial advice (although paragraph 3.3 of the consultation says *could* and not *would* provide this). Improved access to money advice of all sorts would be welcomed but needs more thought:

- Our experience shows recourse to the social fund is not because people are bad at budgeting but because they are in financial crisis caused by sudden shocks or inadequate low incomes (most poor families are excellent money managers - they have no slack to allow them not to be). The foreword to the consultation notes the social fund does not solve *the underlying problems of managing a limited budget*, the fundamental problem here is the limited budget of the family, not the managing of it.
- There is no logical reason why better financial advice could not be provided without contracting out the scheme (by better connecting money advice services with the social fund, indeed each of the problems outlined in paragraph 2.4 could be dealt with by expanding the current fund). Government may expect credit unions to provide a one stop shop but this hope is belied by the suggestion that consortia would potentially provide the service (suggesting not one shop but many) whilst little information is given on how meaningful advice would be.

Applying an interest rate of up to 26.8% to social fund loans. We are pleased Government has clarified its position and stated social fund loans will not be interest bearing. We would like reassurance that this applies to both the social fund crisis and budgeting loan elements. Repayments already reduce incomes below the level of the safety net, whilst the level of benefits is already set too low (see below). Even if Government felt it appropriate to levee an interest rate, 26.8% is very high and punitive; we can see three stated or implied justifications for this interest rate in the paper:

¹⁰ See Independent Reviews Service, *The Social Fund Commissioner's Annual Report 2007/08*, 2008 <http://www.irs-review.org.uk/infocent/reports/ar0708/irsrep0708.pdf>.

- Credit unions currently charge 1-2% monthly interest (so up to 26.8% APR). Though true, this argument is a poor predictor of how much it would cost credit unions to operate social fund loans because automatic benefit deductions mean bad debt risk is minimal. Because this is the same interest rate for a lower risk group, by implication the poorest families would have cross subsidised those already accessing credit union services.
- The interest rate increase will fund credit union activity. This is clearly true but not justifiable if the consequence is to increase the costs of accessing the fund – the implication is administrative costs of providing loans hitherto borne by Government as part of providing a social protection system would have been transferred onto claimants through new interest payments. Given that Government has now said it does not intend to charge interest on social fund loans, we presume credit union providers will either be no longer able to handle social fund loans or would require subsidy to do so.
- That benefit claimants should not get a better deal (interest free) than those without access to the social fund (Para 3.1 states: *affordable loans should be more widely available on a basis that does not provide more preferential treatment to a person on benefit than in work*). Preferential treatment for those claiming benefits is made on the basis that these benefits are inadequate to enable claimants to meet unexpected costs. This argument is dogmatically punitive ignoring just how poor social fund recipients typically are, indeed far from a 26.8% interest rate being equivalent to that which other groups pay when they borrow it is often higher. By comparison with a 26.8% APR: the Bank of England base rate is 2% (one fourteenth the rate); it is nine times higher than the LIBOR rate at which Banks lend to each other (3.05% on 16th December);¹¹ and more than double the cost of interest paid by richer groups (as examples this can be around 7.9-8.9% on unsecured borrowing and 3.6-5.8% on mortgages).¹²

It may be reasonable in a free market with a level playing field to apply market (or above market) interest rates, but this market is stacked against the poorest families. By choosing to intervene Government has made the choice of interest rate its own, not the preserve of the market. Levying a 26.8% interest rate on social fund loans would have been a classic example of goods and service providers making the 'poor pay more', and it would have hit those who need to make greatest use of the social fund hardest (particularly lone parent families¹³ – a group which reports particularly high levels of material deprivation¹⁴).

Automatic deduction of repayments from benefits. Controlling loan repayments through benefit deductions does not sit well with empowering people in their use of financial services. However we recognise this would help reduce bad debt risks and incentivise credit unions to contract with Government. That benefit deduction minimises risk shows again how thin the justification would be for applying an interest rate – repayment of social fund loans is a safe investment.

¹¹ On 16th December, see <http://www.thisismoney.co.uk/libor>

¹² Two searches conducted (16 December using www.fool.co.uk). First five results select. Basis of unsecured loan comparison was borrowing £10,000 for 12 months. The mortgage comparison was based on borrowing £100,000 against the value of property costing £165,000 on household income of £40,000.

¹³ See N Finch and P Kemp, 'The use of the social fund by families with children', Department for Work and Pensions, 2004 In house report 139

¹⁴ See CPAG, Child Poverty: the stats, October 2008, p.9

Extending access to low cost credit. We welcome improved access to decent alternatives to door step lending. To put the loan sharks out of business Government needs to engage with why doorstep lending is so successful and mirror the attractive elements in proposals whilst eliminating the extortionate interest rates (for example ease of access and slower repayment rates than currently apply in the social fund).

The Consultation paper seems to propose those currently claiming social fund loans would retain some kind of relationship with a credit union once in work but there seems no proposal to extend entitlement to others in low pay work (at least in the early implementation stage, which we imagine would be around late 2010). Though we would welcome wider access to low cost credit, it is difficult to see how this could be done for a new group (those in low pay work) which carries more risk (and from which benefit deductions are impossible) on a reasonable interest rate without cross subsidy (which does not imply credit unions will rush to extend access, especially if interest is not charged on current social fund loans). Without widening access to the fund we do not understand what improvement these changes are expected to make.

Advance payments of benefits

Government shows disquiet at the extent to which crisis payments are mopping up problems (especially alignment payments) elsewhere in the system and proposes advance payment of benefits (suggesting 75% of benefit payable in advance for those at risk of hardship – though it is unclear how hardship is defined).

We disagree with the government in its sentiment that *we remain of the view that benefits, like wages, should be paid in arrears* - wages are paid for in return for labour whilst benefits are paid to meet need experienced in the here and now.

Having said that within the ambit of the current proposal we support advance payment of benefit, it makes sense to take pressure off the social fund in this way and to limit the number of administrative processes through which people need to go at the claim (often a time of great stress). Though we understand that government will wish to make checks on entitlement, for upfront payments to work it must be possible for these payments to be issued immediately without a long application process (if a person later proves ineligible government will have to recover the debt).

'Refocusing' the grants scheme and replacing grants with loans

Grants are incredibly valuable to low income families, we do not support Government cutting grants and replacing these with loans and nor do we see it as our role to suggest how Government do so. Since this move feels like one to cut the scheme, we do not recommend areas which should move out of the scope of the fund, however it is important criteria are clear and that grants are available to particularly to deal with child health and safety concerns and to provide for the need to set up home (for instance for those fleeing domestic violence or after a fire). For the reasons discussed elsewhere in this response, redirecting money away from the grants budget would be a benefit cut for some of the poorest families, and we have seen no justification for why this move should be made. Indeed cutting back on grants when fiscal stimulus is much in fashion on a national level is doubly odd since grants act to provide precisely this secondary benefit for local communities.

We would like greater clarity about how Government squares two apparently contradictory arguments within the consultation document:

under the current grants scheme we know that payment does not always go to the right people at the right time (paragraph 3.7b – in a paragraph justifying refocusing grant spending) with

generally only the highest of priority needs are met. (paragraph 2.1 – in a paragraph explaining the current structure)

We agree the grants budget is so small that many hard pressed families do not have access to it, but this logic would not encourage DWP to shift the budget to loans as it proposes to do. No information is given within the paper about which grants are supposedly going to the wrong people.

Though grants have consistently been allowed to winnow on the vine they have a clear role in promoting financial capacity, improving child wellbeing and tackling hardship precisely because they do not trap families in debt and below benefit rate incomes. The value of grants is that they are an enabling and empowering tool which has been recognised elsewhere (for example the Health in Pregnancy grant, the Advisers Discretion Fund and the Child Development Grant pilots). Grants can improve child wellbeing without undermining future living standards; loans cannot.

Grants, loans and benefit scale rates

The reason that people have recourse to the social fund is because for the poorest families incomes are just too low either because of sudden crisis or because of benefit inadequacy elsewhere in the system. The existence of single payments (under the supplementary benefit scheme) was justified on the basis that weekly benefits were intended to pay for regular need but not periodic, 'lumpy', expenditure which was to be paid for by single payments (this principle had existed for most of the post second war period). In 1988 the rights based grants scheme was scrapped and replaced with a current discretionary grant and loan system, made out of a small (in social security terms) and cash limited budget. As no increase was included in the income support scale rates, this was a benefit cut, as would be redirecting further money away from grants now. The historical shift away from the rights basis for grants provision is particularly problematic: the value of the rights based approach is that it rebalances the power dynamic between poorer families and the state bureaucracy, it allows easier monitoring of what is going on (against clear entitlement criteria, vital to proof systems against discrimination); and stimulates scheme improvement by ensuring decisions are open to challenge. The current discretionary system opens the door wide for entrenched bad decision making (especially when the proposals would devolve it to multiple and varied providers).

No clear justification is presented in the consultation paper for why Government wishes to move further away from grants, the only rationale seems to be the felt need to cut grants to refocus resources. Child related and pensioner weekly benefit rates have increased over the past 10 years but Government still has no scientific basis to justify the scale rates, whilst evidence and experience shows these are inadequate. For families the safety net is typically set lower than the official poverty line,¹⁵ which

¹⁵ 60% of median income before housing costs

is itself very mean.¹⁶ Benefits are already too low to properly meet need, single payments were one factor explaining pre-1988 benefit scale rates and when this was cut no compensation was included in the scale rates. Further cutting grants now would be continuation along the same road.

Combining crisis and budgeting loans into one fund

Government proposes combining the crisis and budget loan schemes into one fund with related qualifying criteria, available from day one with simpler rules and consequently faster decision making. We support faster decision making and access from day one and while combining the process looks superficially attractive it raises a series of difficult tensions about which the consultation document is silent and which Government needs to consider carefully.

In a cash limited system it is not clear how the budgeting loan element would be protected from being crowded out by crisis loan requirements (which as Government will be more than well aware have a habit of spiking rapidly, though we agree advance payments would reduce this pressure somewhat).

The consultation suggests access to a budgeting loan would be from the start of a benefits claim rather than after a 6 month wait. Eliminating the wait period is welcome (a system predicated on meeting need ought to be assessed on that basis alone) but there is little logic to differ the credit limit in the first 6 months to thereafter – such a distinction is not a good measure of need and it would be simpler and more equitable to introduce the higher limit earlier.

The qualifying criteria for crisis loans and budgeting loans are different: the former is open to those experiencing sudden income shocks; the later to those on qualifying benefits. It would be a retrograde step out of line with the logic of the paper to deny crisis loans to those in work but not to do so implies a much wider group with entitlement to budgeting loans which does not seem to be in Government's thinking either. We are therefore perplexed at the intent and would welcome more clarity.

Conclusion

These proposals are wide ranging and have significant implications, neither fully discussed in the full document, nor brought out in the impact assessment, and a three week consultation period is inadequate for the scale of change implied. We understand the desire to be able to take legislative powers in the forthcoming welfare reform bill but that is no justification for bad policy.

Amongst the sweep of proposals we support the concept of making advance payments, improving access to low cost credit (if that would be achieved by the proposals but it is not clear this would be) and improved access to money advice, but none of these changes should compromise access to the social fund for those currently entitled. We are pleased Government has decided to rule out a 26.8% interest rate on social fund loans but we remain concerned about plans to reduce access to grants. Introducing an interest rate would have run in stark contrast to the consultation paper arguing in paragraph 3.5 that the Department would *'take especial*

¹⁶ More scientific work to develop a minimum income standard suggests this would be set at about 70% of median incomes. See J Bradshaw, S Middleton, A Davis, N Oldfield, N Smith, L Cusworth and J Williams, A minimum income standard for Britain', Joseph Rowntree Foundation, 2008

care to ensure our most vulnerable customers do not lose out'. Though we support a stronger credit union movement, we do not agree it is appropriate to hand over the assessment of safety net provision to third sector providers.

As well as extending access to low cost credit there are also more imaginative ways of using asset based policy (for instance outlined by three of our organisations¹⁷ or by the Joseph Rowntree Foundation¹⁸) to reduce child poverty but these ideas are not discussed in the consultation paper. A more adequate grants budget is key to using the fund to better tackle material hardship in line with Government intentions to eradicate child poverty. We regret that Government is not seeing extending Social Fund grants as a key opportunity to reduce family material deprivation and we urge it to think more creatively about grants.

About CPAG

CPAG promotes action for the prevention and relief of poverty among children and families with children. To achieve this, CPAG aims to raise awareness of the causes, extent, nature and impact of poverty, and strategies for its eradication and prevention; bring about positive policy changes for families with children in poverty; and enable those eligible for income maintenance to have access to their full entitlement. If you are not already supporting us, please consider making a donation, or ask for details of our membership schemes, training courses and publications.

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Child Poverty Action Group is a charity registered in England and Wales (registration number 294841) and in Scotland (registration number SC039339), and is a company limited by guarantee, registered in England (registration number 1993854). VAT number: 690 808117

About Family Action

Family Action (formerly FWA) has been a leading provider of services to disadvantaged and socially isolated families for 140 years. We work with over 45,000 families a year by providing practical, emotional and financial support through over 100 services based in communities across England. A further 150,000 people benefit from our educational grants and information service. We give about 4000 grants a year for people not eligible for, or rejected by, the Social Fund

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¹⁷ M Howard, *Lump sums roles for the social fund in ending child poverty*, One parent families, Family Welfare Association and Child Poverty Action Group, 2003

¹⁸ K Legge, Y Hartfree, B Stafford, M Magadi, J Beckhelling, L N Predelli and S Middleton, *The Social Fund current role and future direction*, Joseph Rowntree Foundation, 2006

About One Parent Families|Gingerbread

One Parent Families|Gingerbread is the leading national charity working to help the UK's 1.9 million lone parents and their children. We believe in a fairer society for all families, in which people bringing up children on their own are recognised for their positive contributions, and where they and their families can thrive and enjoy equal opportunities financially and socially.

We've been campaigning on behalf of lone parent families since 1918.

This continues to be a major feature of our work and is complemented by a range of dedicated services: the Lone Parent Helpline which provides free telephone information, advice and publications; various membership schemes; resources for practitioners working with lone parent families; and employability programmes for lone parents who want to enter or return to work.

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