

Department for Work and Pensions

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Perspectives of Social Fund loans and third party deductions – A qualitative study of recipients

Christopher Farrell, Richard Brown and William O'Connor

A report of research carried out by the National Centre for Social Research on behalf of the Department for Work and Pensions

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The Authors

Christopher Farrell, is a Senior Researcher in the Qualitative Research Unit at the National Centre for Social Research. He has over six year's experience of the conduct and management of qualitative studies in a variety of areas, both in public and private sectors. Since joining the unit in July 2002, Christopher has focused more on studies in the social policy field. Current research includes an evaluation of the Job Retention and Rehabilitation Pilot for the DWP, and an evaluation of the Curriculum Online programme for the DfES.

Richard Brown, is a Researcher in the Qualitative Research Unit at the National Centre for Social Research. He joined the unit in 2003. Richard is currently working on an evaluation of Level 3 vocational qualification for adult learners, and an exploration of resilience to drug use amongst young people.

William O'Connor, is Deputy Director of the Qualitative Research Unit at the National Centre for Social Research. He specialises in cross sectional and longitudinal qualitative research studies in a wide variety of social policy areas. Recent research has focused on debt, low income and labour market transitions.

Summary

Chapter 1 – Introduction and research design

This report presents the findings of a qualitative study designed to explore the effects on households of deducting Social Fund loan repayments and payments to third parties at source from benefits. The research was carried out by the National Centre for Social Research (NatCen) on behalf of the Department for Work and Pensions (DWP).

The Government has in place two systems within its welfare structure which recognise that people on benefit can experience difficulty budgeting for occasional lump-sum expenses, or struggle to keep up routine household bills and may fall into arrears:

- the Social Fund, which has a regulated fund providing Sure Start Maternity Grants, Funeral Payments, Cold Weather Payments and Winter Fuel Payments, and a discretionary fund consisting of Community Care Grants, Budgeting Loans and Crisis Loans; and
- the Third Party Deductions (TPD) scheme, which allows for the repayment of arrears to be deducted directly from benefit.

Both Social Fund loan repayments and TPD's are subtracted direct from benefit.

This research was commissioned to understand more about the use of Social Fund loans and TPDs, specifically to examine client understanding and experience of direct deductions, and to explore the impact they had on households.

The study employed qualitative research based in five local authorities in England and Scotland: London Borough of Haringey, Manchester, Bolsover, South Tyneside and Glasgow. These five areas were chosen because of their high levels of deprivation. It was assumed that this would result in greater clustering of benefit recipients and higher levels of Social Fund and TPD use.

The sample was purposively selected according to the following criteria:

- the type(s) of direct deduction (Social Fund loan(s) and/or TPD(s));
- the type of claimant (lone parent, unemployed couple with children, disabled people and pensioners);
- family size (no children, one child only or two or more children);
- length of time on benefit (under a year, one to five years, more than five years); and
- ethnicity.

Following an opt-out period, potential participants were recruited by means of a door-to-door screening method, and invited to take part in an interview. 45 eligible interviews were conducted in the months of April and May 2004, in respondents' homes and tape recorded with their permission. The data were then analysed using Framework, a thematic content analysis method for analysing qualitative research.

Chapter 2 – Sample description and context

The sample was constructed to include four main types of benefit or pension recipients: lone parents, unemployed couples with children, disabled people, and pensioners. Over two-thirds of the sample had dependent children within their household, and just under half of these had two or more children.

Most respondents were aged 25 or over. The majority of the sample was white, however just under one-quarter (twenty four per cent) were from a range of minority ethnic groups. A similar proportion of those interviewed lived in households where one or both adults had a disability.

Almost three-quarters of those interviewed lived in rented accommodation, and were in receipt of Housing Benefit and Council Tax Benefit. The remainder were owner-occupiers or living in various forms of temporary accommodation.

Most of the sample were not in work at the time of interview (93%) and relied on benefit or pension for their income. The remainder were in low paid part-time employment, supplemented with benefits or tax credits. Of those out of work at the time of interview 31% had been claiming benefit for under a year, 40% for between one and five years and 27% for five years or more.

Those with dependent children were in receipt of Child Benefit and other forms of state support such as free school meals. Some lone parents also received child maintenance.

The consequences of living on a low income were very apparent throughout the interviews. Whilst financial struggle was commonplace, it seemed more poignant amongst those with dependent children, regardless of the number of children or

their age. Parents talked about the pressures of providing their children with the latest brands in clothes and shoes and the demands of Christmas and birthdays.

Perception of financial difficulty varied, however, amongst those with equivalent levels of income. This appeared to be connected with respondents' recent circumstances. Those who had previously been in work tended to complain more about their financial situation than those whose situation had been more static, and were consequently more accustomed to living on low or restricted incomes.

Budgeting was a common concern for those interviewed in this study. Whilst all attempted to budget in some form, particularly for food, not everyone was proficient at it. Two extremes of financial skill were evident: *competent budgeters* who successfully balanced their income against outgoings, and *deficient budgeters*, whose household's expenditure was frequently in excess of their income. Not all households fell into these two extremes, however. In fact, households often exhibited a combination of both types of budgeting behaviour, or had become more or less competent over time.

Common budgeting strategies included juggling (or 'robbing Peter to pay Paul'), cutting back on non-essentials for both adults and children, selling personal items such as jewellery, and relying on financial (loans and cash gifts) and material (food, furniture and clothes) support from friends, family and neighbours. Informal support was particularly important for those with dependent children.

Saving was a rare occurrence among those interviewed. This was, at times, a consequence of a lack of access to financial services. Alternatively, it was just a result of a lack of resources available to those living on a low income. However, there was some recognition that saving could help with financial management in the longer term.

Differing borrowing profiles were evident, ranging from first time borrowers, to those who borrowed periodically, to those who were constantly in debt and consequently had a heavy reliance upon it. There was also evidence to suggest that some had reduced their reliance on debt over time. These different behaviours were driven by a variety of attitudes to debt, including aversion to, tolerance of and apathy towards debt.

The vast majority of those interviewed had some sort of Social Fund loan outstanding at the time of interview or which had been paid off within the previous twelve months. The sample included those with single and multiple Social Fund loans, those with single and multiple TPDs and some with both Social Fund loans and TPDs. TPDs were for arrears in rent, gas, water, electricity, Council Tax and benefit overpayment.

In addition to Social Fund loans and TPDs, almost three-quarters of the sample had loans outstanding from other sources, encompassing bank loans, overdrafts, credit union loans, private loans, credit and store card debt, hire purchase and catalogue

debts. The scale of debt varied from under £100 up to £6,000.

Over three-quarters of the sample had current or recent arrears. Levels of arrears varied from under £100 up to £1,000. Sixty per cent of those interviewed had arrears that were not the subject of a TPD.

Chapter 3 – Understanding of the discretionary Social Fund

Awareness of the discretionary Social Fund ranged from knowledge of one element to all three (Budgeting Loans, Crisis Loans and Community Care Grants) and was determined by direct experience of the different elements, as well as access to relevant sources of information.

There were three key sources of knowledge and understanding concerning Social Fund loans. These included:

- *'official' sources* – which comprised both written information and verbal advice;
- *local knowledge networks* – which consisted of advice from friends and family and general word of mouth; and
- *past experience* of using the loans.

Different levels of exposure to these sources meant that there was not universal understanding of how Budgeting Loans and Crisis Loans operate. Broadly three levels can be identified:

- *limited understanding* – which was generally associated with knowing little more than a few key facts (e.g. Social Fund loans are interest free), was due to limited past experience, restricted advice from formal sources and little or no access to local knowledge networks;
- *basic understanding* – which signified a greater knowledge of facts but a lack of understanding of how Social Fund loan offers were made. This group illustrated more effective use of formal sources of information and their own experience, and a strong reliance on local networks for most of their advice; and
- *comprehensive understanding* – where there was greater knowledge of key facts but also a more developed understanding of how Social Fund loan offers were made, which the other groups lacked. This group displayed more effective use of all sources, in particular the way they used their knowledge gained through experience to enable them to ask more informed questions of DWP staff.

Those with limited understanding of Budgeting Loans were often misinformed about how the scheme operated. Whilst those with basic understanding knew many more of the facts, they were unaware of how offers were influenced by family size and length of time on benefit. Those with comprehensive understanding did understand this, and also knew that the maximum figure that they could borrow was also influenced by these variables.

In general, there was much less known about Crisis Loans, as they were perceived to be more straightforward in how they were administered. Users only appeared to have basic or limited understanding of Crisis Loans.

Chapter 4 – Use of Social Fund loans

Six key steps were identified in the Budgeting Loan application process:

- Steps 1 and 3 concerned obtaining and returning applications forms respectively. This was done in one of two ways: in person or by phone and post. Telephoning was considered more convenient and allowed applicants to ask questions of DWP staff. It also allowed those uncomfortable with being on benefits to have as little contact with DWP offices as possible. Phone encounters were reported to be more helpful than those that were office based. The face-to-face approach was generally chosen because it was felt to expedite the application process.
- Step 2 involved completion of the application form, which was generally seen to be straightforward. The line of questioning was on the whole considered to be appropriate but was seen as intrusive and repetitive by some. Help with its completion was required in some cases. A number of application strategies were identified. These included not applying until a current Social Fund loan was repaid; applying for more money than needed; non-disclosure of existing debt; and applying at the start or end of the budgetary year.
- Step 4 concerned the receipt of offers. Three combinations of offers and repayment rates were reported: a single offer and single rate, a single offer with a choice of rates, or multiple offers each with different repayment rates attached.
- Step 5 related to interpretation of and response to the offer. Receipt of a lower offer than the one applied for was met with a range of negative emotions.
- Step 6 concerned the receipt of the money.

The Crisis Loan application process involved fewer steps and was typically completed in a day, although it was suggested that it could be made quicker. The application form was criticised by some for being lengthy and complicated, and sometimes intrusive. More experienced users, in contrast, recognised an improvement in the process. The requirement of applying in person was distressing for those who found DWP offices depressing. Crisis Loan offers were also criticised for being too low.

Social Fund loans were seen to have a range of distinct advantages compared to other forms of borrowing:

- The loans do not incur interest.
- They are available to anyone in receipt of benefits or Pension Credit and to those with bad credit histories.
- Repayments are deducted directly at source.

- They are more discreet than other forms of borrowing.

However, Social Fund loans were seen to have disadvantages too, especially when compared to private loans in particular. They were felt to be less flexible, less convenient and repayment rates were judged to be higher than other lenders.

Social Fund loans were used for a number of different reasons, including:

- to purchase household goods, for example washing machines and beds;
- to pay for clothing;
- to allow for household improvements, such as decorating;
- for special occasions like Christmas and holidays;
- to service debts and bills;
- For everyday needs, such as food shopping.

Budgeting Loans had a variety of roles in households. This ranged from those who relied on them for emergencies to those who used the loans to boost everyday spending and help them make ends meet.

Crisis Loans were commonly used to compensate for lost or stolen money, as well as delays in the receipt of benefit or pension payments, in addition to a variety of other emergency situations.

Chapter 5 – Understanding and experience of Third Party Deductions

Awareness of TPDs was low across the sample. No one used the term 'third party deduction', or 'direct payment' as the scheme used to be known. Despite this, there was some grasp of the concept. However, understanding of the mechanics of the scheme was patchy, specifically in relation to a range of key features: the conditions governing eligibility; how a TPD is set up; the number of TPDs that could be operated at the same time; how repayment rates are set; whether and how repayment rates can be revised; and whether additional payments can be made to the creditor.

Respondents were often unclear about the terms of their own TPDs. It was not uncommon for users to lack knowledge of when the TPD was set-up and how much was outstanding. Consequently, there were calls for better administrative procedures in this regard.

Participants were selected because they had current or recent experience of TPDs. Those interviewed comprised those with one TPD and those with more than one TPD in operation at the same time. There were also first time and repeat users in the sample. TPDs were either imposed at the request of a creditor, or were requested by the claimant. Where they were imposed, users typically recalled having received a letter from the DWP, as well as telephone calls and home visits. Where TPDs were requested, they were done so by telephone or in person at a local Jobcentre Plus. Those who were aware of the scheme were clearer about what they should request.

Even where there was no prior awareness, users had assumed that the DWP would be able to provide some sort of help with the repayment of arrears.

Both positive and negative attitudes towards TPDs were expressed. However, these were determined less by the process of arrangement (i.e. whether they were imposed or requested) and more by a range of other factors, including:

- whether the TPD was seen to be 'fair';
- how effectively the TPD was explained and implemented; and
- whether an individual's financial independence was seen to be compromised.

Chapter 6 – Direct Deduction and its implications

The rate at which Social Fund loans are repaid can vary but they are typically between five and fifteen per cent. Generally, the fewer the financial commitments a household has, the higher the rate of repayment, to a maximum of 25%. The standard TPD rate to cover arrears is £2.80 per week, although in respect of utility TPDs the deduction normally includes an amount for current consumption. Up to three lots of deductions can be arranged at the same time, or four in cases of Council Tax arrears and court fines. Awareness of how Social Fund loan and TPD repayment rates are set was low across the sample.

Repayment rates in this study varied between one and seventy two per cent, though most rates tended to be below 25% of available income.

There was general acceptance of the principle of direct deductions, with two exceptions. The first was voiced by those who were opposed to the system of Social Fund loans in general, but favoured grants instead. Alternatively, some agreed with the idea of direct deduction but challenged the reason for it in specific circumstances. On the whole, it was well received, as it removed the responsibility for repayment from the debtor, thus avoiding any potential repercussions arising from non-payment and on the whole giving greater peace of mind. However, the facility was also felt by some to diminish financial independence and self determination.

The rate of repayment was perhaps the most contentious issue concerning direct deductions from benefit, and in particular, whether and why certain rates were acceptable. A principle determinant of acceptability was, undoubtedly, the rate of deduction. Where rates constituted a very large proportion of income (particularly above 20%), they were almost always considered unacceptable. However, in general, there was much variation in how rates lower than 20% were interpreted. Indeed, perceptions were also informed by a range of other, equally important, considerations, including: how fair the rate was felt to be; the degree of honesty with which the application form was completed; the frequency of use; how grateful recipients were for the help provided by loans and TPDs; and the level of existing debt.

The impacts of repayments on household financial management depended on the combination of the total proportion of income deducted and the level of other debt repayments. Repayments seemed less manageable where there was:

- a high repayment rate and a high level of other debt;
- a medium repayment rate and a medium level of other debt;
- a low repayment rate and a high level of other debt;
- a high repayment rate but little or no other debt.

Conversely, they were more manageable where the proportion of income deducted was low and where there was little or no other debt. This combined effect was mitigated, to a certain degree, by good financial management.

There were some instances of where people had requested a review concerning unacceptable or unmanageable repayment rates – with mixed success. However, in the main, repayment rates that were unacceptable or more importantly unmanageable were rarely challenged. Some were unaware that it was possible to do so. Alternatively, where there was awareness there was a fear that requesting a review could lead to withdrawal or reduction of the loan or TPD, either currently or in future applications.

Where repayments were manageable, they reduced the level of the debt being repaid, removed the risk of defaulting and incurring penalties, and, in places, led to a reduction in the overall burden of debt. Where they were unmanageable, they seemed to exacerbate the effects of living on a low income. This led to cut-backs on household spending, juggling of bills, accrual of arrears, increased borrowing from other sources and an overall feeling that financial security had been further depleted.

The impacts on material circumstances also increased as repayments became less manageable. There was a definite priority in what was affected. Luxuries for adults were affected first, followed by treats for children which was often upsetting for adults. Cut-backs on clothing and footwear, for adults first and then children, were often the next area where material circumstances were affected. Respondents also talked about making savings where food shopping was concerned, such as shopping at cheaper stores or producing more home cooked food.

All members of the family were potentially affected when repayment rates, in combination with other circumstances, made it difficult to make ends meet. Whilst adults did their best to lessen the impact on children by making their own sacrifices before having to cut back on expenditure specifically related to children's needs, children were undoubtedly affected.

Chapter 7 – Conclusion

The final chapter draws together the main findings of the research and pinpoints the implications for policy in this area:

- This, and previous, research has shown that good financial management is key to surviving on a low income. This underscores the importance of strategies that aim to increase skill in this area amongst those living on low incomes.
- Budgeting Loans, Crisis Loans and TPDs clearly do offer vital support to those on low incomes. However, their effective use is affected by awareness of them. Whilst Social Fund loans appeared to be relatively well known, there was much more limited awareness of TPDs, especially amongst non-users. There were families with arrears interviewed who could have benefited from TPDs but they had never heard of them. Increasing customer awareness of TPDs should therefore be an important future priority.
- There tended to be better understanding of Budgeting Loans than Crisis Loans and TPDs. Where understanding is high it can mean that individuals have better knowledge about their rights and entitlement and have a better chance of taking an active and empowered role in their financial management. Where it is low, there is less knowledge of the scope of entitlement, and it affects the confidence and skill with which people approach the application or arrangement processes. There is a clear need to increase understanding of TPDs and Social Fund loans amongst benefit and pension recipients.
- There was a general acceptance of the principle of deducting payments for Social Fund loans and TPDs. In particular, deductions for loans and TPDs were seen to have very positive psychological benefits by those who experienced them, giving peace of mind that debts or arrears are covered. The value of this to people who are perhaps accustomed to worrying about money should not be underestimated.
- While high repayment rates – in excess of 15% – were generally unmanageable, it was the fit of the repayment rate with the other financial circumstances of the household (particularly the level of other debt) that had more of an influence. Better financial skill can mitigate some of this difficulty, but only to a certain extent. High repayment rates can result from incorrect or false completion of application forms for loans. This emphasises the importance of increasing applicants' understanding of how loans are decided upon. Engendering increased honesty in the application process could ensure that households achieve more realistic repayment rates, and therefore experience the many benefits that these services have to offer.

1 Introduction and research design

This report presents the findings of a qualitative study designed to explore the effects on households of deducting Social Fund loan repayments and payments to third parties at source from benefits. The research was carried out by the National Centre for Social Research (NatCen) on behalf of the Department for Work and Pensions (DWP).

1.1 Background to the research

The Government has in place two systems within its welfare structure which recognise that people on benefit can experience difficulty budgeting for occasional lump-sum expenses, or struggle to keep up with routine household bills and may fall into arrears.

The first of these is the Social Fund which is intended to help those on income related benefits with expenditure that otherwise could not be afforded or could result in unmanageable debt. Some Social Fund loans are made as of right so long as a person can meet the conditions of entitlement. This 'regulated' Social Fund covers grants for expenses incurred because of maternity or funerals, as well as Cold Weather and Winter Fuel Payments. Other payments are made from the 'discretionary' Social Fund and are expected to cover a variety of other lump-sum needs – mainly household items and unforeseen but important expenditure. This discretionary Social Fund is made up of three types of payments: Budgeting Loans, Crisis Loans and Community Care Grants.

The second support mechanism for those out of work and in financial difficulty is a facility that arranges payment on behalf of a benefit recipient to a third party (for example a housing or utility provider). These 'Third Party Deductions' (TPD) are designed to protect those on benefit from the consequences of running up debts on essential domestic expenses. A TPD can be requested by the benefit recipient or mandated by the creditor provided certain eligibility criteria are met.

Both Social Fund loan repayments and TPD are subtracted direct from benefit to ensure that repayments are regular and consistent, and with the hope that the benefit recipient avoids further debt.

Previous research has shown that while there is not universal awareness of the Social Fund amongst benefit recipients, it can provide an important source of financial resource for those who use it, often at a critical time (Whyley *et al*, 2000; Harries & Woodfield, 2002; Kempson *et al*, 2002; Farrell & O'Connor, 2003). It has also indicated that direct deduction of repayments is viewed positively by many benefit recipients, as it enables individuals to keep close control over their money (Whyley *et al*, 2000; Farrell & O'Connor, 2003). However, there are conflicting reports about the impact of repayments on household finances and living standards. On the one hand, research carried out by Whyley *et al* (2000) suggests that repayments are largely unproblematic. This is confirmed by two other studies (by Farrell & O'Connor, 2003 and Harries & Woodfield, 2002), though both of these studies were conducted with individuals who recently moved into work, and the resulting change in financial resources could have tempered their views on repayments. An investigation by Kempson *et al* (2002) into Social Fund use amongst older people shows that repayment levels are sometimes problematic, so much so as to act as a deterrent for some applications. This may be related to age – we know that older people in general are more reticent about borrowing money (Finch & Elam, 1995; Kempson *et al*, 2002) and this may influence their views about repayments.

Furthermore, Kempson and her colleagues found that there was little understanding amongst their respondents about how repayment rates were set – a finding confirmed by Whyley *et al* (2002) in their earlier investigation. Evidence presented by the Citizens Advice Bureau also suggests that repayments are not always easily met and that there is a lack of understanding amongst benefit recipients about how these are set, and whether or how they can be changed (Citizens Advice Bureau, 2002).

1.2 Research objectives

The available research and evidence is clearly inconclusive. Moreover, it provides no real depth of insight into the impact – positive or negative – which repayments can have on the various aspects of household finance and debt management. This sort of evidence is needed to ensure that these facilities are indeed effective components of the Government's welfare strategy. This research was commissioned in order to address these important questions. More specifically the research sought to:

- Understand the financial circumstances of those households in receipt of Budgeting Loans, Crisis Loans and TPDs.
- Describe general attitudes to credit and debt amongst those who have deductions made direct from their benefit.
- Explore client experience of having deductions direct from benefits and of the processes by which these are arranged.

- Examine the range of views and attitudes that exist about direct deductions from benefit, in particular about the level of repayment and the appropriateness of this.
- Explore client knowledge of their rights over setting rates for repayment, as well as their awareness and understanding of how repayments are organised and set, and the procedures for revising these.
- To identify and explain the various impacts of direct deductions at source from benefit, including the:
 - effects on household budgeting and financial management systems;
 - impacts on material and financial resources, and more generally on living standards and hardship levels;
 - influences on attitudes to debt and on debt accumulation;
 - range of psychological or emotional effects (both positive and negative);
 - impact on attitudes towards work generally and of moving into work.

1.3 Research design and methods

This study used qualitative research because of its ability to provide a detailed understanding of the experiences of those using the TPD scheme and repaying Social Fund loans. This section gives an overview of the research design and the methods used in the study.

1.3.1 The study areas

The sample was located in five local authorities in Great Britain: the London Borough of Haringey, Manchester, Bolsover, South Tyneside and Glasgow. The four English local authorities were selected from the top thirty most deprived local authorities according to the Multiple Index of Deprivation 2000, to ensure diversity in terms of size, region, locality and degree of urbanity. Glasgow was selected as the most deprived local authority in Scotland according to the Scottish Index of Multiple Deprivation 2003. The research was situated in deprived areas because it was assumed that there would be greater clustering of benefit recipients in these areas and greater use of the Social Fund and TPDs. An overview of the different areas included in the sample is shown in Table 1.1.

Table 1.1 Characteristics of research locations

Location	Deprivation	Ethnic diversity	Unemployment	Area type
Manchester	Sixth most deprived local authority in England	Good	High	Inner city
South Tyneside	Fifteenth most deprived local authority in England	Mono-cultural	High	Urban town (industrial)
Haringey	Twentieth most deprived local authority in England	Very good	High	London cosmopolitan
Bolsover	Thirtieth most deprived local authority in England	Mono-cultural	Average	Rural area (industrial)
Glasgow City	The most deprived local authority in Scotland	Some	High	Regional

Sources: ONS, Neighbourhood statistics: <http://neighbourhood.statistics.gov.uk>; Multiple Index of Deprivation 2000; Scottish Index of Multiple Deprivation 2003.

1.3.2 Sample design and selection

The sample frame for this study was drawn from the Income Support and Jobseeker's Allowance computer systems, which had been merged with the Social Fund computer system to identify Social Fund and TPD use. From this, the sample for the study was purposively selected to ensure diversity of coverage across certain key variables. This aim here is to map rather than mirror the parent population. So, the sample used does not statistically represent the wider population of Social Fund Loan or TPD recipients, but all important constituents of that population are represented within it to ensure that their importance for the study objectives can be explored. Purposive sampling of this kind provides the opportunity to explore those factors, influences, and experiences that are thought to affect the area being studied.

The sample was selected according to the following criteria:

- *Type(s) of direct deduction:*
 - Cases were selected to include households with experience of different types of deductions from their benefit or pension within the last year. Broadly, three groups were included: those with deductions for Social Fund loans (Budgeting Loans, Crisis Loans or both), those with a TPD and those with both types of deductions.

- *Type of claimant:*
 - Four types of claimants were included in the sample: unemployed couples with children, lone parents, pensioners and disabled people (with and without children).
- *Family Size:*
 - Because of the types of claimants included in the study, the sample was primarily comprised of families with dependent children. To this end, cases were included to represent families of varying sizes, specifically, those with one child only and those with two or more.
- *Length of time on benefit:*
 - The cases selected represented claimants who had been on benefit or in receipt of pensions for varied lengths of time. This included recent claimants (i.e. under a year), medium term claimants (between one and five years), and longer term claimants (more than five years).
- *Ethnicity:*
 - Quotas were set to guarantee ethnic diversity within the sample.

Letters of invitation were sent to all potential participants allowing those who did not wish to take part the opportunity to withdraw. The remaining sample was then used to conduct door-to-door screening in each of the five areas. Here a NatCen representative called upon participants and administered a short screening interview. Quotas were set at this stage of recruitment to ensure full representation of each of the key sampling criteria in the final sample. Those within quota, and still willing, were then invited to participate in the research. Copies of the recruitment materials are contained in Appendix A.

The final composition of the sample included 45 eligible respondents. Six additional interviews were also conducted, but not included in the final sample because they did not fit the primary criteria identified above. This appeared to be the result of inaccuracies in the sample file received from the Department, which wrongly indicated that certain claimants had been in receipt of a TPD. At interview, these respondents were clear that their benefit or pension had never been subject to any deductions. A full description of the achieved sample is outlined in Chapter 2.

Recruitment was hampered by the deprived nature of many of the areas in which the study was based. Many of the addresses received from the Department were located in what were considered by recruiters to be unsafe areas and this meant that recruitment had to be confined to hours of daylight, lessening the chance of a successful outcome. Alternatively, there appeared to be a scepticism or pessimism about the value of the study or research in general in many areas – most pronounced in Glasgow, where recruitment was severely affected. This meant that quotas had to be increased in the other study locations.

1.4 Conduct of interviews

The interviews were conducted using responsive questioning and probing to ensure that all relevant issues were fully explored. They were conducted using a topic guide to ensure that a similar series of issues were explored with each respondent. This was designed in collaboration with the Department and with reference to the key objectives of the study. The first ten interviews were conducted by researchers working in pairs which allowed the research team to reflect on fieldwork approaches and strategies and pinpoint any slight changes that were needed to the content or structure of the topic guide. A copy of the final topic guide is shown in Appendix A.

Interviews were conducted in April and May 2004. In each case, a main respondent was sampled – generally the person who received the main benefit on behalf of the household. This person was selected for interview, however it was usual in couple households for both partners to be involved in the interview. The interviews took place in respondents' homes and lasted between one and two hours. They were tape recorded with the permission of respondents and transcribed verbatim. All respondents were guaranteed anonymity and confidentiality at all stages of the research. All those taking part were given a gift of £25 as a token of appreciation for their participation, and to cover any expenses incurred in taking part.

1.5 Analysis

Verbatim transcripts of all the interviews were analysed using 'Framework', a method developed by the Qualitative Research Unit at NatCen (Ritchie *et al*, 2003). The first stage of analysis involves familiarisation with the transcribed data and identification of emerging issues to inform the development of a thematic framework. This is a series of thematic matrices or charts, each chart representing one key theme. The column headings on each theme chart relate to key sub-topics, and the rows to individual respondents. Data from each case is then summarised in the relevant cell. The context of the information is retained and the page of the transcript from which it comes is noted, so that it is possible to return to a transcript to explore a point in more detail or extract text for verbatim quotation. This approach ensures that the analysis is comprehensive, consistent and that links with the verbatim data are retained. Organising the data in this way enables the views, circumstances and experiences of all respondents to be explored within a common analytical framework which is both grounded in and driven by their own accounts. The thematic charts allow for the full range of views and experiences to be compared and contrasted both across and within cases, and for patterns and themes to be identified and explored. The final stage involves classificatory and interpretative analysis of the charted data in order to identify patterns, explanations and hypotheses.

1.6 Report coverage

The report is divided into six further chapters. **Chapter 2** gives a profile of the sample, and describes their household and financial circumstances, as well as their use of and attitudes towards credit and debt. This is followed by **Chapter 3** which examines respondents' understanding of the Social Fund, while **Chapter 4** describes the experience of applying for and using Social Fund loans. **Chapter 5** examines participant understanding and experience of TPDs. **Chapter 6** examines attitudes towards repayments and their implications for financial and material circumstances. Finally, **Chapter 7** summarises the key conclusions of the study and draws out some of the key conclusions for policy.

The report uses verbatim quotations throughout and case examples in some of the chapters. Where necessary the details of the contributors or their subjects have been moderately changed to protect anonymity. Pseudonyms have been used for all quotations and in all case examples.

The study was qualitative in design and this has made it possible to describe the range and nature of the perspectives held by participants in the research. It has also been able to identify the factors that have contributed to different outcomes. However, the study cannot provide any statistical data relating to the prevalence of views, experiences or factors leading to different outcomes. Where any such conclusions are suggested by the data, they are presented only as hypotheses to be tested.

2 Sample description and context

The role of this chapter is to provide background for the report by describing key information about the sample and displaying some important aspects of the context of respondents' lives. It examines the household and family make-up of those interviewed. It also describes the types of benefits received and general financial circumstances. Finally, the level and type of borrowing within the sample is illustrated, as is the range of attitudes expressed about credit and debt.

Throughout the sections that follow, numerical data are shown in places when describing key sample characteristics. However, due to the small size of the sample and the purposive basis of selection, no statistical significance should be attached to these distributions. They are included here to provide an overview of the composition of the sample and to provide context to the chapters that follow.

2.1 Socio-demographic characteristics and household circumstances

This study comprised interviews with 45 respondents who had experienced deductions at source from their benefit for Social Fund loans and/or for TPDs. The sample was constructed to include four main types of benefit or pension recipient: lone parents (31%), unemployed couples (24%), disabled people (23%) and pensioners (22%). Across these four groups there was a diverse range of demographic and household circumstances. These are outlined in Table 2.1 and described in the remainder of this section.

The types of groups included in the sample meant that the study included a variety of family forms. Forty per cent of respondents came from lone parent families, regardless of what they had been initially identified as. The origin of these was varied. Some had always been lone parents, while others had become lone parents following the breakdown of a married or cohabiting relationship – a minority of

these had moved between lone parenthood and cohabitation or marriage on more than one occasion. Forty-two per cent were living as a couple (either married or cohabiting) at the time of the interview. Some of these families had only recently been formed, and where this was the case, it was common for one or both of the partners to have been living as a lone parent. Most of the couple families had dependent children, but a minority did not – some disabled people selected lived in families without children, likewise some of the pensioners lived in couples who had non-dependent children or who had never had children. Finally, there was a small number (18%) of single person households. These were comprised of single pensioners and single disabled people without children.

Over two-thirds of the sample (69%) had dependent children within their household. Of the households with children 27% had only one child, while just under half (42%) had two or more children (Table 2.1)

Table 2.1 Socio-demographic characteristics of participants

	n	%
Area		
Haringey	11	24
Manchester	11	24
Bolsover	10	23
Glasgow	2	5
South Tyneside	11	24
Age		
20–24	3	7
25–40	17	38
41–59	14	31
>59	11	24
Ethnic origin		
White	34	76
Minority ethnic group	11	24
Type of household		
Lone parent	18	40
Couples	19	42
Single person	8	18
With dependent children	31	69
Without dependent children	14	31
		Continued

Table 2.1 Continued

	n	%
Number of children		
No children	14	31
One child only	12	27
Two or more children	19	42
Housing		
Renting from Council/Housing Association	28	62
Renting privately	5	11
Owner occupier with mortgage	7	15
Temporary accommodation	5	12
Base: total sample	45	100

Respondents' households also differed in terms of other circumstances. Just under a quarter of those interviewed lived in a household where one or both adults had a disability. The nature of impairment here varied considerably, as did the severity. Also, while some had a single impairment, others had multiple. In couple households, the partner of a disabled person sometimes acted as that person's full-time carer.

The majority of respondents were aged 25 or over, and amongst them there was a fairly even spread of ages. A minority (seven per cent) of those interviewed were aged between 20 and 24. This less than even spread across all ages is indicative of the fact that age was a secondary sampling criterion and so was not controlled for within the purposive selection.

In two study areas – London and Manchester – respondents from a variety of minority ethnic groups were included. In total, 24% of the sample were from non-white ethnic backgrounds and, in the main, were of African Caribbean, Black-African, and South Asian (Bangladeshi and Pakistani) heritage.

Almost three-quarters of those interviewed lived in rented accommodation. Most of these (62%) rented from either a local authority or a Housing Association, while a further 11% rented from a private landlord. A minority (15%) were owner-occupiers, though all had mortgages of various sizes, the payment of which was sometimes supported by the benefits system. The remainder – 12% – lived in a variety of different types of temporary accommodation or states of 'rooflessness': in temporary bed and breakfast accommodation provided by a local authority, in emergency hostel accommodation, or with friends or relatives.

2.2 Income

Almost all of those interviewed were not in work at the time of interview, and as a consequence were reliant on income from benefit or pension. The main source of income varied depending on the type of participant. Lone parents were generally dependent on Income Support as their primary source of income. Some unemployed couples also cited Income Support as the main benefit received, however, it was more common for them to be in receipt of Jobseeker's Allowance. Disabled people and their families cited a combination of benefits as their main source of income – including Income Support, Disability Living Allowance, Incapacity Benefit, and sometimes mobility or carer allowances. Pensioners also relied on more varied sources for their main source of income, including Pension Credit, Income Support and Incapacity Benefit. One person also had a private pension from which they drew a small but regular income.

Because it was the main justification for inclusion in the study, all of those interviewed had experienced deductions at source from their main benefit or pension at some point over the last year to pay off a Social Fund loan and/or a Third Party Deduction (TPD). Most, but not all, of these deductions were still ongoing. This is discussed further in Section 2.5.

Though income from benefits was the main source of income for nearly all those interviewed, a minority (three respondents) received a small income from part-time work. This work was generally low paid, and in the service or manufacturing sector. Two participants supplemented this income with tax credits.

Table 2.2 Current activities and benefit history

	n	%
Main source of income		
Benefits (IS, JSA, DLA, IB)	31	69
Benefits/tax credits and wages	3	7
Pension Credit	11	24
Length of time on benefit		
<1 year	14	31
1-5 years	19	40
>5 years	12	27

All of those in rented accommodation received some form of support with their housing or Council Tax in the form of Housing Benefit or Council Tax Benefit. Similarly, those with dependent children received Child Benefit and other forms of state support such as free school meals, school uniform grants and so on. Some lone parents reported receiving child maintenance from previous partners, either arranged through the Child Support Agency, or through some private arrangement.

Thirty one per cent had been on benefits or in receipt of pension for under a year. Two-fifths (40%) of the sample had been claiming benefits or pensions for between one and five years, while 27% had done so for five years or more.

2.3 Financial and material circumstances

2.3.1 Living on a low income

The reliance on benefit or income derived from state pensions, and the relative lack of any income from paid work, meant that low income and its consequences was a common concern in almost every interview. In spite of receiving income related benefits and pensions, it was common for those interviewed to report that they did not have enough money to live on. Respondents, in the main, described existences that were frugal, in which certain key aspects of expenditure were not catered for sufficiently. For instance, while all families were able to buy food, some reported not being able to buy food in either the amount or quality that they needed to support them or their children. Discussion of empty fridges and store cupboards was typical (in some cases interviewers were shown these by respondents). Those with children spoke of how they tried to ensure that their children had the basic necessities, but others did admit that their children were sometimes hungry or went without essential items. The ability to buy clothes, especially new clothes, or to engage in any sort of regular leisure activities was typically said to be beyond their reach.

It is unlikely that such poverty is a result of living on benefit alone. Indeed, it was clear that in the most extreme circumstances that it was living on benefit, *combined* with high levels of debt that made it difficult to make ends meet. Where people described not having enough to live on, it was not uncommon for expenditure to be much greater than income, and for a good portion of that expenditure to be spent on repaying debts of one sort or another. In this respect, though respondents often blamed their income level as the sole reason for their inadequate financial and material circumstances, it was often clear that over-indebtedness also had a strong part to play here.

The lack of what were seen to be basic necessities – such as food – had a range of emotional impacts on respondents and their families – such as stress, anxiety and depression. Anger too was a typical response, though the focus of this varied: some blamed themselves, while others felt the Government were responsible for the position they were in. Others evoked a sense of helplessness throughout the interviews and did not focus so much on the cause of their circumstances.

On the whole, people were more pragmatic about not being able to afford clothes, leisure activities or other commodities, because these were, in the main, regarded as luxury items rather than necessities. Nevertheless, there was a strong drive or wish to be able to afford such things, especially where children demanded them.

While evidence of financial struggle resulting from low income was evident in many households, this seemed especially problematic in households where there were dependent children. Providing for a child was said to make life on a low income even more difficult. Also children were sometimes portrayed as uncompromising about their needs, needs which adults either did not have or had learned to do without or not express. There was recurrent mention of the pressure to provide branded clothing and shoes, toys, or to pay for expensive leisure pursuits. The potentially high cost of providing for Christmas and birthdays was also a common concern for parents. It was the presence, rather than the number of children that was felt to predicate such difficulty: those with only one dependent child described financial difficulties in much the same way as those with numerous dependent children. Similarly, the age of children did not dictate a greater or lesser degree of financial struggle – only the nature rather than the level of demands placed on a families finances changed as children got older.

While it was clear that families within the sample often struggled financially to a certain degree, similar levels of hardship were perceived in different ways. For instance, those who had been accustomed to higher incomes in the past (those who had been working full time and/or had previously had an income from a partner) were much more likely to bemoan their current financial circumstances and the impact it had on material well being:

'Well I had sort of two full-time wages and to go from that and a family unit to just me and the kids and a pittance, really, to live off in comparison to what I was used to; it's massive [...] because you live in accordance to your means don't you, and because I was used to getting, what, £2,000 a month, £120 a week is a massive difference [...] I do struggle.'

(Female, 31, white, lone parent, Budgeting Loan user)

Conversely, those on an equivalent level of income, who had received roughly the same level of income for quite some time (generally people who had been on benefit for a long time, or who moved between work and benefits without any real noticeable improvement in financial circumstances) did not always perceive themselves to be struggling to the same degree as others. Indeed, for some, it appeared that low income was perceived as the norm.

2.3.2 The role of budgeting

Budgeting was a common concern for those living on what were perceived to be limited means. All participants attempted budgeting in some form, particularly for food. This was given specific emphasis by those with dependent children who felt it was important to make sure that children were adequately provided for. Not every household, however, was proficient at budgeting and it is possible to distinguish between:

Competent budgeters

Those who successfully balanced their income against outgoings. This success was underpinned by a range of activities, including:

- using a bank account, rather than keeping cash in the house;
- putting time into developing a budgeting plan;
- having a good awareness of the projected level of income each week or month;
- prioritising spending on key items (like food, housing costs, or debts) and being disciplined about keeping to stated priorities;
- setting aside money for bills and paying them off as soon as it was possible;
- having realistic set amounts to spend on household costs, bills and debts;
- bulk-buying food or only buying non-brand items; shopping around to find cheapest items and only frequenting 'low cost' grocery stores;
- only taking what they needed in cash to shop to avoid overspending;
- buying items for difficult times of year (Christmas/birthdays/school re-starting) throughout the year;

and those that could be described as:

Deficient budgeters

Those whose household expenditure was frequently in excess of their income. Again, this sort of household exhibited a range of characteristics:

- not having access to any form of financial services such as bank accounts to store money received from benefit or pension;
- having no firm idea about the total household income and whether current outgoings could be met by expected income;
- not thinking about or developing any firm budgeting plan for the household;
- being without firm spending priorities, or having them and not sticking to them;
- being prone to spend on 'luxuries' rather than core household costs like utility bills;
- placing little or no emphasis on paying household bills or repaying debts.

Not all households fell into these two extremes of financial skill; rather, there were households who displayed contrasting elements of both competent and deficient budgeting simultaneously. Also, it was clear that respondents' budgeting strategies had sometimes evolved or regressed between these two points over time – some had been deficient budgeters but had become more skilled at financial management. The reverse was also true where circumstances such as the loss of a job or the break-up of a relationship had led people to become less proficient at budgeting.

Furthermore, even the most competent budgeters within the sample struggled to meet unexpected costs, for example, where repairs needed to be made to a home or where essential household items like a washing machine needed to be replaced.

Irrespective of the level of competence that can be ascribed to a household, there were certain budgeting strategies that were evident. These encompassed:

'Robbing Peter to pay Paul'

A repeated phrase throughout the interviews, *'robbing Peter to pay Paul'* or *'juggling'* as this practice was also known, refers to how some households managed money by staggering the payment of financial commitments. It was common for respondents to describe paying some bills or debts while neglecting others, and rotating the priority shown to different areas of expenditure over time. This was a permanent aspect of some people's way of managing their finances, while for others it was employed only when necessary – for example if several bills came together, or at more financially pressurised times of the year – like Christmas or school holidays.

Cutting back

Cutting back on what was perceived to be unnecessary household expense was another common tactic exhibited. Forgoing adult leisure activities such as going to the pub and smoking were typical features of participants' experiences. Similarly, choosing not to replace non-essential household items (like a kettle or a toaster) when they broke and or not buying adult clothing when they became damaged was another way of reducing outgoings. There was some difference in how this sort of stringency was interpreted by respondents. Some were pragmatic and resolved to *'just grin and bear it'*. For others, it was clearly a source of much distress.

'Sometimes I could sit and cry [...] because I want things and I can't get them [...] We need some new carpets upstairs. We had to start from scratch didn't we with nothing, because a disaster happened. You know what I mean? I'm trying to build me home up again.'

(Female, 39, white, couple with children, multiple Social Fund loan and TPD user)

Expenditure on adults or the home was not the only target of this budgeting strategy. Children's desires were also restricted. Treats such as sweets, toys, the quality and quantity of Christmas and birthday presents, the availability of short holidays (mostly day trips) and other leisure activities, such as going to the cinema or McDonald's were all at times curtailed. This sort of denial was typically a more traumatic experience for parents than limiting household or adult spending.

'If you don't have it you don't have it. It's stressful to do that you know? We want to do something and we can't do it. My cousin just had a girl; she sent an invitation [to the Christening] you know what I mean? I couldn't go because I can't buy a present for the little girl. They say 'why didn't you come? It's family' – but I know everybody else can buy a present you know what I mean? I know that in life there's some things you can't run away from [...] You see kids going to the seaside. I've got three and they've never been on holiday.'

(Male, 41, black-African, disabled couple with children, multiple Social Fund loan user)

Selling personal or household items

A further strategy used to make ends meet was to sell or pawn non-essential personal and household items. For instance, participants described how they had sold belongings such as furniture and jewellery to boost their income. This was, for some, a regular practice and an ongoing aspect of their approach to making ends meet. They, consequently, had depleted their personal or household resources by a considerable degree. More typically, such a strategy was reserved for emergencies – to pay a particular bill or repay an overdue debt. Not every household resorted to this way of raising extra income, either because their circumstances were not so extreme or because having to part with one's possessions in this way was considered demeaning.

Support from neighbours, friends & extended family

Parents, siblings, other relatives, friends and neighbours were all relied upon at certain times to boost household income, and therefore make it easier to cope financially. This support came in many forms, including:

- *Cash gifts* – These were usually small (a matter of £10 or £20) but sometimes could be larger (though no more than £300) – for example when a parent would help to pay an outstanding credit card bill or buy an essential household item.
- *Short-term interest free loans* – Again these were usually for small amounts of money and almost always repayable when a household received the next instalment of income from benefits. However, on occasions these loans were for as much as £3,000.
- *Food* – Cooked meals were sometimes provided for respondents and their families. Alternatively, gifts of foodstuffs and household provisions were also received.
- *Furniture and other consumables* – A wide variety of household items (sofas, fridges, washing machines, TVs, DVD players etc) were either loaned or given to respondents because they could not afford them personally.
- *Clothes* – It was common for those interviewed to talk of receiving second hand clothes from others – for themselves and their children.

This sort of informal support was particularly apparent amongst families with dependent children, and where it existed, it acted as a crucial foil to hardship. It also meant that children's relatively expensive desires could sometimes be catered for even though the household itself had very little disposable income.

'One of my brothers took [my son] out the other day and spent £200 on clothes on him. They [the children] don't miss out very often. My brother knows I haven't got it, and my kids are good kids, they're not horrible, they're well brought up [...] I wouldn't cope [without financial support from family], I'd be suicidal, and I know I couldn't cope. Because I just couldn't cope on benefits with kids, the pressure would be too much. Your kids do show off for things, and how can you buy a boy a pair trainers for £40, £50 when that is all you're getting coming in for the week, and putting it away, they don't want to wait, and £5 a week is a struggle, so you've got to save for eight weeks for those trainers. Christmas and that is really hard if you haven't got anybody.'

(Female, 44, white, lone parent, Budgeting Loan user)

Not everyone was able to or wanted to rely on this form of support. There were some who appeared to be without local networks of support – of either family or friends. There were those who did not draw upon potential sources of support. This was for a number of reasons. Some were unconvinced that anyone in similar financial status as themselves could help in any real way. There was also a fear that lending support could render others in a similar state of financial difficulty. Finally, some valued their independence and accepting help of this kind was seen to compromise that.

2.3.3 The role of savings

Saving money, which would in the longer term have perhaps aided problems with budgeting and the ability to deal with unexpected costs, was clearly arduous for many households. Not all had access to the financial services that would have facilitated this. However, lack of savings was not just a consequence of financial exclusion. Where bank accounts were held, they were rarely used to save money. Where benefit payments were made through a bank account, it hardly ever led to an accumulation of funds over time.

Savings were not even contemplated by some respondents. These were often the least proficient budgeters who found it difficult to make ends meet. There was, in other households, recognition that saving could help financial management in the long-term. However the ability to save was governed by the success of current financial management systems – so those who were bad financial managers were unable to save, even when they recognised it could help. The better the budgeter, the more likely they were to engage in some sort of saving – even intermittently. However, active saving – where money was put aside regularly and a participant was able to build a sum of money over period of time – was rare within the sample, and such behaviour was largely confined to those who were the most competent budgeters.

Where money was saved, balances were rarely, if ever, in excess of £100. Bank accounts or informal savings schemes like 'Christmas Clubs' were generally used to save, though some also talked of hiding money in a safe place within the home.

2.4 Credit and debt

2.4.1 Borrowing profiles

Borrowing was a common feature of participants' experiences. However, there was variation in the nature and extent of indebtedness. Four types of borrower can be identified:

First time borrowers

Typically, first time borrowers had not borrowed from any other source prior to their current Social Fund loan. There were a number of reasons for this. Aversion to debt was typical amongst first time borrowers, as were good skills in financial management. Also common here was a recent involvement in paid work, which had lessened the need to be reliant on, or accumulate, debt. Finally, it was not unusual for first time borrowers to have quite elaborate support networks that they could rely upon, which had clearly lessened the need to borrow from other sources.

Periodic borrowers

This group were characterised by their intermittent relationship with debt. They described going through stages of needing to borrow and times when borrowing was unnecessary, and debts were cleared. However, the use of credit was not a permanent way of making ends meet for these respondents. It was usually brought about by unexpected costs, such as a relationship breakdown or the costs associated with a family event like a wedding or a funeral, to cover extraordinary expenditure like a holiday or Christmas, or to purchase or replace an essential household item.

Constant borrowers

This type of borrower was heavily reliant on credit and had significant amounts of debt. Here borrowing was an active strategy in day-to-day financial management and not just used to pay for unexpected costs. It had, over time, been used to pay for household bills, food and other daily necessities.

Declining borrowers

These were those who had previously been a periodic or constant borrower, but no longer borrowed so often, if at all. It was clear that some had become more debt averse over time – because of previous negative experiences with debt. Alternatively, household change (such as the arrival or departure of a partner) had at times led to increased income or better ways of financial management that lessened a household's reliance on or use of debt.

2.4.2 Attitudes to borrowing

These diverse profiles of borrowers are reflected in varying attitudes to debt evident amongst those interviewed. Three broad attitudes can be identified:

Aversion to debt

This was characterised by households who eschewed debt under any circumstances except as a last resort or in an emergency, for instance where an essential household item or clothes for children were urgently required. It was common for these households to exhibit an inherent dislike of owing money:

'Some people can cope with debt, I'm not one of those people that can. Even if I have a debt of £1,000 I'll have sleepless nights, it'll really, really make me very, very sick. I'm just one of those people that I would rather eat less and if I have a debt, clear it. I can't, I just can't cope with it. [...] I think this is one of the reasons why I have tried my hardest to keep everything above water and there have been situations which have been out of my control and I've been in debt and I've not been able to do anything about it, I've just had to deal with it. And I still do have small debts and I'm trying my best to clear them.'

(Female, 40, South Asian, lone parent, TPD user).

This sort of attitude was sometimes rooted in people's early childhood and family experiences. It was common for respondents to talk of advice given by parents on how to avoid debt or how seeing friends and family in debt made them resolve never to be in the same situation. Aversion to debt was also based on an individual's own past experience of indebtedness and the negative repercussions it had had on themselves and their families.

Attitudes to debt amongst pensioners and those from minority ethnic groups were particularly stringent. Here, over-indebtedness was typically portrayed as reprehensible and equated with failure or loss of dignity or honour. Being debt adverse does not mean that a household had never been in debt. Indeed, there were instances where a firm dislike of debt was eroded in situations when people felt they had no other option to make ends meet or to provide for the needs of children. But, in the main, those who voiced an aversion to debt were either first time borrowers or were declining borrowers.

Tolerance of debt

Acceptance of debt as a part of financial management was recurrent amongst households who were either periodic or constant borrowers. While it was common for these respondents to express a dislike of debt it was often characterised as a necessary evil:

'I don't like having these loans [...] I'm not happy about it. You know, I wish I could get these two loans paid off but I can't [...] I don't like debts though. I don't like having debts, I mean I've got three clubs which when, I just haven't had cash, you have to go into debt you know for things when you've not got cash.'

(Female, 60, white, single pensioner, multiple Social Fund loan user).

Tolerance of debt was also associated with being an efficient manager of debt and a good financial manager more generally. These households saw debt as a tool of financial management and seemed to be able to keep it to an acceptable level.

Apathy towards debt

Lack of concern about debt was a regular feature of some people's accounts – particularly constant borrowers who were heavily indebted to a range of sources. Apathy appeared to be one way of coping with or indeed ignoring the reality on one's own level of indebtedness. Alternatively, it was a feature common amongst those who were resigned to debt. This was apparent amongst those who had tried but failed (in their own estimation) to cope with living on a low income and had concluded that high levels of debt were an unavoidable feature of their financial status. This did not always mean that individuals did not appreciate the seriousness of their plight. Moreover, it was indicative of the helplessness that characterised some people's experiences. Notwithstanding this, there were some that voiced apathy who seemed to also abdicate responsibility for their debt. Here, it was felt that living on a low income could protect one from any serious repercussions arising from existing or increasing debt.

2.4.3 Current borrowing commitments

It is unsurprising then that households reported a broad range of borrowing commitments.

Borrowing from the Social Fund and TPD commitments

All had at some point borrowed from the Social Fund or been subject to a TPD. The vast majority of the sample (89%) had some sort of Social Fund loan outstanding at the time of interview or which they had paid within the previous 12 months (Table 2.3). The sample was structured to include those with single and multiple types of loans from the Social Fund. To this end, twenty respondents had at least one Budgeting Loan, five had at least one Crisis Loan, and a further 15 had at least one Budgeting Loan *and* one Crisis Loan for which deductions were made from their benefit.

Twenty respondents (45% of the sample) were subject to a TPD at the time of interview; 15 of which (one – third of the total sample) were also having deductions made from their benefit for either a Budgeting Loan or a Crisis Loan. TPDs were for arrears in rent, gas, water, electricity, Council Tax and benefit overpayment.

Table 2.3 Overview of borrowing and TPD commitments

	n	%
Type of deduction		
Budgeting Loan	12	27
Crisis Loan	5	11
Budgeting Loan and Crisis Loan	8	18
TPD only	5	11
TPD and Budgeting Loan/Crisis Loan	15	33
Borrowing from the Social Fund or via a TPD <i>only</i>	12	27
Those with at least one other borrowing commitment <i>in excess of</i> Social Fund loans or TPDs	33	73
Base: total sample	45	100

Additional borrowing commitments

In addition to these commitments, almost three-quarters (73%) of the sample had loans outstanding from a variety of other sources. These sorts of debts encompassed bank loans, bank overdrafts, credit union loans, loans from private loan companies and 'loan sharks' or 'club men', as well as credit and store card balances, hire purchase and catalogue debts. The scale of other debt varied enormously: some owed as little as £100, while others owed as much as £6,000. Smaller debts (under £500) were usually owed to less formal sources like catalogues and 'club men'. Whereas, larger debts (from £500 up to £6,000) were more likely to be with banks and credit cards.

2.4.4 Arrears

In addition to arrears that were paid via a TPD, discussion of current or recent arrears was commonplace. Indeed, over three-quarters of the sample (76%) had current or recent arrears (Table 2.4). Sixty per cent of the sample had arrears that were not the subject of a TPD. These arrears included some of the same range of sources for which TPDs were being made, however, they also included others such as TV licence, phone bills and digital TV.

Table 2.4 Current and recent arrears

	n	%
Arrears		
Arrears via TPD ONLY	7	16
Arrears but NO TPD	14	31
Arrears paid via TPD AND other arrears	13	29
No past/current arrears	11	24
Total: base sample	45	100

Again the scale of these arrears varied considerably between respondents. Although respondents were less precise about the amount they owed through arrears than their additional borrowing commitments, arrears ranged between £100 and £1,000. Where arrears were low, the money owed tended to be for a phone bill or digital TV subscriptions. High levels of arrears were typically the result of housing costs (rent and council tax), and/or utility bills.

Given the range of circumstances described here, it is unsurprising that respondents made use of the Social Fund and TPDs. The remaining chapters of the report explore this use in more detail, as well as its implications for the families concerned.

3 Understanding of the discretionary Social Fund

3.1 Introduction and background

The Social Fund was set up in 1988 to replace the previous system of single payments to meet special lump sum needs. It provides grants and repayable loans predominantly to people living on low incomes. It has two key components: the *regulated fund* and the *discretionary fund*. The regulated fund comprises Winter Fuel Payments, Cold Weather Payments, Funeral Payments and Sure Start Maternity Grants. These are awarded according to conditions of entitlement which are laid down in regulations. The discretionary fund is awarded at the discretion of staff at Jobcentre Plus and it is budget limited. It is made up of three elements:

- *Community Care Grants* which are non-refundable payments to meet specific kinds of needs;
- *Budgeting Loans* which are interest free repayable loans intended to cover larger items of expenditure for which it may be difficult to budget on Income Support (IS) or income-based Jobseeker's Allowance (JSA(IB)); and
- *Crisis Loans* which are interest free repayable loans intended to meet expenses in an emergency, including living expenses. (Finch and Kemp, 2004; Kempson *et al.*, 2004; Child Poverty Action Group, 2004).

The Budgeting Loan element was reviewed in 1999, and changes were made to the decision making process governing who should receive an offer and how much they should receive. Up to that time the key factor governing such decisions was the purpose of the loan. Since the review, decisions have been based on the circumstances of the individual (particularly the length of time on benefit and size of family). The application forms were also simplified at this time (Whyley *et al.*, 2000).

This research is focused on the discretionary Social Fund, and in particular the impacts of deductions from benefit of Budgeting Loan and Crisis Loan repayments. However, before going on to explore the impacts of direct deductions, it is first necessary to understand the context in which these occur.

This chapter, thus, looks at how people's knowledge of the discretionary Social Fund impacted on their understanding of how Budgeting Loans and Crisis Loans are awarded. The first section begins by exploring awareness of the discretionary Social Fund as a whole and in particular awareness of the different elements that make it up (Budgeting Loans, Crisis Loans and Community Care Grants), and the language used to refer to these elements. The next section then goes on to explore the extent of respondent understanding of the individual elements they used (Budgeting Loans and/or Crisis Loans).

3.2 Awareness of the discretionary Social Fund

Awareness of the different elements of the discretionary Social Fund varied; whereas some were aware of all three elements, others only knew about one particular element. There appeared to be no single explanation for this difference, though awareness was of course linked to use of the individual elements. To this end, those who were aware of all three components of the discretionary Social Fund had used (or at least applied for) all three of them. Those whose experience was more limited consequently had more 'limited' awareness. However, direct experience was not the only influence on awareness of the Social Fund. Information provided by the Department for Work and Pensions (DWP) also played a role.

The language used to refer to the different elements of the fund was far from consistent. Crisis Loans were usually referred to using the correct term, or by a close synonym such as 'emergency loan', even among those who had only used the loan facility once, whereas use of or knowledge of the term 'Budgeting Loan' was less common, even among regular users. Instead a number of other terms were used such as '*Social (Fund) loan*', '*loan off the Social*' or '*loan from Income Support*'.

The term 'Crisis Loan' did appear to be more easily associated in people's minds with the actual purpose of the loan. In contrast, 'Budgeting Loan' did not appear to convey the intended use of this type of loan as easily.

[Interviewer] *'You said you had a loan off the Social Security?'*

[Respondent] *'Yeah, there's two types of loan there.'*

[Interviewer] *'What were the two types of loan?'*

[Respondent] *'One type is the emergency loan. Or are you talking about – what do you call it? There's a loan for maintaining the house and fixing the house. You can apply for £1,000.'*

[Interviewer] *'Is that the one you used?'*

[Respondent] *'Yeah. I applied for that one. But some time I applied for a Crisis Loan. You know what I mean, a Crisis Loan?'*

(Male, 27, black-African, couple with children, multiple Social Fund user)

Furthermore, even when respondents referred to the loans using the correct names this was not always a sign that they were clear about which one they were talking

about. Respondents sometimes appeared confused, a point illustrated by the fact that some used different terms to describe the same type of loan (for example, using terms associated with Crisis and Budgeting Loans when discussing one or the other). This type of confusion sometimes made it difficult to identify with any degree of assurance which type of loan a respondent had received. However, the amount borrowed and the reasons for borrowing were generally able to indicate receipt of either a Crisis or Budgeting Loan.

Respondents used a variety of terms to refer to Community Care Grants. Those who had used or applied for these grants were more likely to use the full name but there were also some references to '*Social Fund (grant)*'. Grants were also mentioned by those who appeared to recall the Supplementary Benefit single payment scheme that existed prior to the Social Fund, whereby people would receive grants for essential domestic items like cookers, beds and fires. Discussions concerning Community Care Grants and the former single payment scheme were not covered in any depth as this was beyond the scope of this research.

3.3 Understanding of Budgeting Loans and Crisis Loans

This section examines what and how much people understood about the two Social Fund loans, and what influenced their understanding. We begin by identifying the different sources of knowledge available to users, and then examine the different levels of understanding across the sample. The final sections examine understanding of Budgeting Loans and Crisis Loans separately.

3.3.1 Different sources of knowledge

It was possible to identify three key sources of knowledge that were used by participants of this study. These were:

- '*Official*' sources. These came in two forms:
 - *Written information* such as leaflets on the Social Fund obtained from Jobcentre Plus/'social security' offices or the Post Office; information sent with benefit/pension correspondence or order books; and leaflets and information accompanying application forms (e.g. information about Crisis Loans was available on Budgeting Loan application forms and vice versa);
 - *Verbal advice* from a variety of sources including Jobcentre Plus / 'social security' staff (either in person or by telephone), welfare rights officers, and staff in other voluntary or statutory agencies such as hostels or housing advice agencies.
- '*Local knowledge networks*'. These networks consisted of advice (both correct and incorrect) from friends, family and neighbours who had also used the Social Fund.
- *Experience*. Some users drew on their extensive experience of having used the Social Fund over a number of years.

3.3.2 Different levels of understanding

A clear distinction can be drawn in respondents' understanding of how Budgeting Loans and Crisis Loans operate and, more specifically, in their understanding of how offers are made. Three broad levels of understanding can be identified:

Those with limited understanding of Social Fund loans

Understanding for some was limited to a few facts about Social Fund loans, the most notable of which was that loans are interest free. Their understanding of how offers are made was virtually non-existent, or clearly wrong. This was in part due to a lack of experience of using loans in the past, but also it seemed to be linked to where information was gleaned from. Those with limited understanding of the Social Fund tended to have little or no access to local knowledge networks. Instead there was a greater reliance on advice from 'official' sources or on information remembered from leaflets and posters.

Having *limited understanding* had implications for how well – equipped respondents were to ask informed questions of these sources, and to a large extent they were dependent on others to interpret their needs and suggest a suitable course of action. So, for example, those wanting help with the purchase of household items were generally directed towards a Budgeting Loan and those who complained about late payment of benefit or pension were told to apply for a Crisis Loan. There was no evidence that staff at Jobcentre Plus were taking this opportunity to inform applicants about the other elements of the Social Fund or that respondents were advised of the conditions under which they were eligible for different types of loans.

Those who had a basic understanding of Social Fund loans

Here there was greater understanding of the key aspects of both Budgeting Loans and Crisis Loans but not to the degree that there was clarity about how loans and repayment rates were decided upon. This increased level of understanding appeared to be once again linked to the types of information sources used. There was use of both official sources and informal networks here, and more importantly, better interrogation of the resources employed.

Notwithstanding this, there was certainly more reliance on local knowledge networks here and, at times this was the only source of information cited. It was common for such respondents to describe how they had heard about Social Fund loans from friends and neighbours and how '*everybody* [in their area] *knows about the loans*'. Indeed, those who relied on friends, neighbours and family for their information tended to know more about the different elements of the Social Fund and were more likely to use the correct terms for the different elements. This is broadly consistent with research on Community Care Grants which has found that '*information gleaned by word of mouth led to more extensive knowledge and a deeper understanding of the Social Fund*' (Kempson *et al*, 2004: p24).

Those who had a comprehensive understanding of Social Fund loans

Here there was understanding, not just about the range of loans and grants available, but also a keener grasp of how offers were made. Again this was due to use of wider sources of knowledge, and better engagement with them. Length and depth of involvement with the Fund (which of course is a result of longer time spent on benefit or in receipt of pensions) was also a key factor in generating this depth of understanding.

'Well I've been dealing with social security [since] I was twenty one, [...and I have learnt about things] just through experience, and just basically finding out, [...] just [by] sitting and arguing with [staff...] putting in for loans through the year and then asking. You see if you don't ask you don't get so what I do I ask the system, and [...] being polite over the phone, if you're going to the social security shouting your mouth off, you're not going to get anywhere. [...] Yeah, It was one in social security told me personally, she says the Government only give people in social security a thousand pound, that is a maximum, they can't go over that even if you've got a Crisis Loan, [...] I was told that about four years ago.'

(Female, 44, white, lone parent, multiple Social Fund loan user and TPD user)

3.4 Understanding of Budgeting Loans

This section deals specifically with respondents' understanding of how Budgeting Loans operate, especially with regard to how offers are made. It starts by looking at some key facts associated with Budgeting Loans, it then moves on to assess the variation in understanding across the sample.

The following are the range of 'facts' relating to Budgeting Loans that were mentioned¹:

- Budgeting Loans are interest free.
- They are only available to people who have been on JSA or IS for 26 weeks.
- A minimum of £30 can be borrowed.
- A maximum of £1,000 can be borrowed.
- The amount borrowed depends on how much money is already owed to the Social Fund. The amount owed is then doubled and deducted from the maximum allowed.
- The amount borrowed depends on how much is available in the local budget.

¹ These facts are based on what people said and not the official or exact criteria governing the allocation of Budgeting Loans. See Appendix B for an overview of Social Fund application rules.

- The amount borrowed depends on family size.
- The amount borrowed depends on length of time on benefit.

It was unusual, except for those with the most *comprehensive understanding* of Budgeting Loans, for the full range of 'facts' to be outlined. Moreover, the scope of the 'facts' mentioned, while wide-ranging, is somewhat limited. For instance, despite the fact that pensioners were interviewed, there was no mention that people receiving Pension Credit (for 26 weeks and over) were also eligible for a Budgeting Loan. There was also no discussion of the fact that, with regard to JSA, only users in receipt of JSA(IB) were eligible for a loan. The fact that the level of savings held by a claimant could also affect the size of the loan was also overlooked.

Those with *limited understanding* of Budgeting Loans often knew little more than the fact that the loans are interest free, or if they did the nature of such information was spurious indeed. Also, misunderstanding of the rules surrounding Budgeting Loans was common amongst those with more limited knowledge. For example, one person was so unsure about how the loans operated he started to doubt the things he thought he knew, such as whether interest was charged or not. Another respondent assumed that she could only take out a Budgeting Loan once every five years. There was evidence to suggest that some Budgeting Loan users based their knowledge on out-of-date information that had not taken into account the changes made to the Budgeting Loan decision making process in 1999. This is supported by Whyley et al (2000) who found that whilst people were more likely to recall changes made to the application form for Budgeting Loans, they were much less aware of changes made to the decision making process. Nevertheless, it was not clear whether misinterpretation of the facts in this sample was a result of outdated written information or poor quality word-of-mouth.

Those users categorised as having a *basic understanding* of Budgeting Loans tended to know most of the key facts stated at the start of the section apart from the last two (the effects of family size and length of time on benefit on the amount available). However, whilst these people were aware of a number of basic facts, they lacked those that were key to understanding how offers were made, and so at times appeared misinformed.

Typically those with *comprehensive understanding* had a greater insight into how offers were made. They appeared to understand that the maximum they could borrow was not necessarily the ultimate maximum of £1,000 but a figure that was based on their individual circumstances, such as how many dependants (partner and children) they had and how long they had been claiming benefit, as well as how much they may have already owed the Social Fund. For example, a woman with five children who borrowed £1,000 every six months, knew that this was based on the number of children she had and the length of time she had spent on benefit. She also knew that her grown-up daughter who only had one son and had been claiming for a much shorter period of time would only be eligible for a lesser amount. In another

example, a pensioner who used Budgeting Loans every year was also aware of the limits on borrowing. She knew that she could not borrow more than £400 but that people with children would be able to borrow up to £1,000.

In contrast, those with only *basic* and *limited understanding* who were aware of the maximum limit of £1,000 tended to assume that they could borrow the full £1,000, or that they could borrow the full £1,000 minus double the amount they already owed. They clearly did not understand the part played by other household or family circumstances in loan calculations. This key misunderstanding often led to frustration when offers were lower than anticipated.

3.5 Understanding of Crisis Loans

There was much less discussion about the rules and regulations pertaining to Crisis Loans within the interviews. There was a sense from those who had received these loans that they were seen to be much more straightforward. Alternatively, given the nature of circumstances that people had to be in to receive them, it appeared that some were more accepting of them, and less questioning of the process.

The Crisis Loan users interviewed in this study had either *limited* or *basic understanding*, (even though some had better understanding of how Budgeting Loans operated). This might be due to less frequent use of Crisis Loans. In essence only two key facts were discussed:

- that Crisis Loans are interest free; and
- they are to be used for emergencies only.

No mention was made about eligibility, or how savings could impact on the amount borrowed, or that the offer depended on any outstanding debts to the Social Fund. However, there was some discussion about how offers were made and how much could be borrowed. One respondent felt that the amount of money lent to replace a lost giro was influenced by how long was left until his next benefit payment. There was also suspicion that only a percentage of the amount applied for was granted, or that the maximum amount that could be borrowed through a Crisis Loan was £100.

This variable understanding of Social Fund Loans had clear implications for use of the service. Applying for Social Fund loans and other aspects of their use is the focus of the next chapter.

4 Use of Social Fund loans

This chapter examines people's experiences of using Budgeting Loans and Crisis Loans. It looks first at their experiences and thoughts on the application process. It then goes on to describe the reasons why loans were taken out and explores what the loans were used for.

4.1 Applying for Social Fund loans

This section looks at the steps involved in applying for Social Fund loans and experiences of the application process.

4.1.1 Budgeting Loan application process

The steps involved in applying for a Budgeting Loan were recalled easily by respondents regardless of their level of understanding. The following box shows the key steps involved:

Steps in the Budgeting Loan application process

- 1 Obtain an application form
- 2 Complete the form
- 3 Return completed form
- 4 Receive loan offer
- 5 If in agreement, sign and return
- 6 Receive money

The following sub-sections look at each of the steps in detail and explore experiences of the application process.

Steps 1 and 3: Obtaining and returning the application form

There were two key methods used by Budgeting Loan applicants:

- a face-to-face approach, which involved obtaining and returning forms in person; or
- a combination of using the telephone to request a form and the postal service to receive and return the form.

There was generally a preference for one method or the other, although the telephone and post combination was the most commonly used in this sample. There were a number of different reasons underpinning such preferences. Picking up the telephone to request an application form was seen to be more convenient and straightforward, particularly for those living in more rural locations, where the nearest Jobcentre Plus could be some distance away. The telephone approach was also felt to give applicants the opportunity to ask questions about the application process. This was particularly important to those with *limited understanding* of Social Fund Loans, as it was often one of their only means of finding out key information, as they lacked the local knowledge networks that more knowledgeable users had at their disposal. Some first time users of the Social Fund reported that, without direction from staff over the telephone, they would not have known about the different loans available, or which they should apply for,

'I rang up Social Security, I said look, I've lost the money, what do I do? Do I wait another fortnight. Oh no, come down here and get a Crisis Loan, that's when I found out. Fair enough.'

(Male, 48, white, single disabled person, Crisis Loan user)

The telephone method was also adopted by those who wanted to have as little contact with the benefits system as possible: people who were new to claiming benefits and pensioners who had never claimed benefits. For example one lone parent, who had found herself on benefits following the breakdown of her marriage, described how she felt 'small' being on benefits, and was keen that no-one other than her family would know that she had applied for a Budgeting Loan. Using the phone to apply meant that *'I didn't have to look at them and they didn't see me asking'*.

Contact with phone-based staff was reported to be a much more positive experience than dealings with office-based staff. Staff on the phone were described as helpful and informative, whereas office-based staff were at times portrayed as unhelpful, officious and rude, a point also made by Budgeting Loan applicants in Whyley et al's (2000) study.

'Aye, there's this one woman up at the social. [...] She's just arrogant. She just, looks down at you. She just thinks that you're a piece of shit or something, do you know what I mean? [...] She just wants to know all your business [and] you're like listen 'you're the receptionist, do you know what I mean, it's no your business, it's personal!''

(Female, 21, white, lone parent, multiple Social Fund loan and TPD user)

Some, however, did actively choose the face-to-face route. Those who preferred this approach tended to be more knowledgeable and more experienced users of Budgeting Loans, and used it because it was felt to speed up the application process. The application process, from obtaining a form to receiving the money, was reported to take between one and four weeks, though it was typically completed within a two-week period. Those who applied in person, however, found that face-to-face dealings – handing in completed forms and returning signed offer letters in person – resulted in a more timely receipt of funds.

'It were easier to get in and take it in and it saves a lot of time and all because by the time you've posted it [...] and waited for it to come back and then go back again and get your giros, or go into bank it's a couple of weeks. But if you take it in and then it's done that day you'll get an offer. Then you take it in yourself [...] you've got a giro the next day.'

(Female, 38, white, lone parent, multiple Social Fund loan and TPD user)

Step 2: Completing the application form

The application form was generally seen to be straightforward and easy to fill in, particularly where there were tick boxes rather than open questions. In fact, those who were able to recall previous versions of the forms (prior to 1999) that had included more questions were particularly positive about the ease with which the current form could be completed.

The questions asked on the form were, on the whole, seen to be appropriate. Applicants were able to easily recall the types of information required by the form, which included details of how much money was needed, what the money was needed for, how many people lived in the household, amounts of income and spending (including debt repayments) and the applicant's National Insurance number. That said, there was some criticism of the amount of information required. Some who had assumed that this information could be gathered from benefit records found it hard to understand why they were asked to give the same information again. There was also some cynicism among those who were uncomfortable with the benefits system as a whole. One such person felt that the questions on most DWP forms communicated a distrust of applicants and were designed to deter rather than encourage use.

'They ask you these questions and then a few minutes they ask you the question again in a different way and you think well I'm sure I've just answered that question, what do they want us to do just copy that paragraph and put it there or write it in a different way. To be honest you feel like ripping the forms up. They get to you eventually, you think oh they don't want you to have this money, why bother and that's how you feel.'

(Female, 44, white, disabled lone parent, Budgeting Loan user)

Some also remarked how they had needed help to fill in the form from friends and family or from some other trusted source such as a welfare rights officer. There were no reports of respondents having received help from staff within Jobcentre Plus

offices, although some had asked for help. Instead, respondents talked about staff adopting an unhelpful attitude.

Discussions about the application process, highlighted a set of strategies that users employed to enhance their chances of getting a loan or securing the amount they wanted, some of which have also been highlighted by other research on the Social Fund (Finch & Kemp, 2004). These encompassed:

- *Applying only once outstanding Social Fund loans are paid off:*
 - This was perhaps one of the most common strategies adopted by those applying for Budgeting Loans. However, there was different reasoning behind this approach, associated with the disparate levels of understanding and experience described earlier. Those with *comprehensive understanding* had, through experience, realised that they stood a better chance of receiving the full amount they wanted to borrow, if they did not owe any outstanding debt to the Social Fund. In one case a respondent regularly checked 'her account' at the local Jobcentre Plus and only made a new application when she was sure she did not owe anything on her previous loan. This approach was also adopted by those with more *basic understanding* but it was more associated with misinformation, than with strategy, since there was a common misinterpretation that recipients were obliged to pay off current loans before they could take out any further ones. This, however, is not a requirement of the fund.
- *Applying for more money than is needed:*
 - Another common tactic employed by some of those with *limited* and *basic understanding* was to apply for more money than was actually needed. This strategy appeared to take into account users' awareness of the Social Fund's budget-limited nature, but also highlighted a lack of understanding about how Budgeting Loan offers are made. So whilst they did not fully understand the factors that would affect the amount they would be offered, they had gleaned from their own and others' experience that it was typically less than the amount applied for. To counteract this they applied for more in the hope that they would be offered an amount nearer to the one they actually wanted. Some took this approach to extremes by either applying for double the amount they required or the ultimate maximum amount of £1,000.

'If you want £400 you have to put in for £800. If you want £500 you have to put in for £1,000. If you want £200 you have to put in for £400. You always put double the amount because they don't give you the amount you ask for.'

(Male, 41, black-African, disabled couple with children, multiple Social Fund loan user)

- *Not disclosing existing debts or other financial commitments:*
 - Not disclosing all information concerning outgoings and in particular debt repayments was fairly common amongst those applying for loans, as it was assumed that this would increase the chance of getting a loan or of securing a high amount. This was not always the case, however. Some with more *comprehensive understanding* realised that the way to guarantee a low repayment rate was to list – in great detail – the nature of current outgoings, and by doing so demonstrate their limited potential to finance a high level of repayment.
- *Applying at the start or end of the budgetary year:*
 - This strategy appeared to be adopted only by those with more *comprehensive understanding*. They believed that it was better to apply for loans either early or later in the tax year, so as to take advantages of any adjustments to Social Fund budgets.

Step 4: Receipt of the loan offer

There was some variation in the nature of offers made to those who took part in the study, although there was no apparent reason for this in respondents' accounts. Three different offer types were reported:

- a single loan offer and single repayment rate;
- a single loan offer but with a choice of repayment rates; or
- multiple loan offers with different repayment rates attached to each.

How well the loan offer corresponded with what the applicant wanted also varied. While some were offered the amount they applied for, it was also common to be offered less and more than that amount.

'They sent me a letter back saying we could have the money we asked for. We put in for £400 and they said you could have it, but underneath it said, you could have had £600 something if you wanted. [...] I thought, I've never heard of that before.'

(Male, 39, white, disabled couple without children, multiple Social Fund loan and TPD user)

Step 5: Acceptance or decline of the offer

The next step was either to accept or decline the offer(s) made. This depended on the amount of money offered and on applicants' satisfaction with it. Where applicants were offered the amount they had applied for, reactions were, not surprisingly, positive. This was a more common situation among those with *comprehensive understanding*, as they tended to know how much they would be offered in advance, due to being more aware of factors taken into account in the decision. The underlying reaction to offers that were lower than expected was dissatisfaction, but this was displayed by a range of negative emotions. Receiving an offer lower than

expected was a source of frustration for some because it meant that they were unable to afford the things they felt they needed. This was felt to indicate a lack of understanding of the pressures faced by low income households and this was the cause of much anger, upset and offence. Some were perplexed that lower offers were made at all because payment was ultimately guaranteed by direct deduction from benefit. Here, again, we see how understanding of how loans and repayment rates are calculated affects client satisfaction with the service provided.

There were some who were more resigned to lower offers, not because of the variables at work in loan calculations, but because they seemed to expect disappointment in life. This sort of response was sometimes coupled with a gratitude for any help – and less focused on dissatisfaction with the nature of the offer. It perhaps goes without saying that these were often in the most vulnerable circumstances.

Whatever the emotional response, loan offers were almost always accepted without question, except where they were significantly lower than asked for and considered to be too minuscule to be of any benefit. Requests for reviews of low offers were rare. However, this was not because people did not wish to, rather it was rooted in a fear that requesting a review would have negative consequences for them. There was a commonly held perception that any challenge to an offer would lead to its withdrawal altogether. Whilst much of this appeared to be based on hearsay, it also resulted from offer letters being misinterpreted. One respondent, for example, talked about how the offer letter she received appeared to suggest that any disagreement with an offer would lead to its withdrawal. Another recalled that this was what had happened to a friend who had tried to obtain a review. Requests for reviews regarding unsatisfactory offers are dealt with in Chapter 6, as they were more commonly a reaction to repayment rates.

The low instance of request for reviews perhaps highlights how reliant users were on Budgeting Loans even where offers were low. However, that is not to say that lower than expected offers did not have repercussions for applicants. Some had to make changes to their plans for the loan money, by either doing without something or finding a cheaper alternative, whereas others looked at other ways of raising the additional money, such as borrowing from friends and family or more expensive private loan companies. Those who had falsely inflated the amount they needed to begin with were less affected by lower offers.

Step 6: Receipt of the money

Receipt of the loan appeared to be straightforward. Applicants either received the money in the form of a giro (or multiple giros) or had the money paid directly into a bank account.

4.1.2 Crisis Loan application process

The descriptions given of the Crisis Loan application process were broadly similar across the sample. The steps recalled included: visiting a local 'social security' office; waiting for assistance; explaining circumstances to a DWP representative; filling in an application form; waiting for an offer, and receiving a giro. Typically the whole process was said to take place in the same day, particularly where applicants needed money to replace a lost or stolen giro or purse or to compensate for late benefit or wage payments. Where money was required for a less immediate need, such as to cover funeral expenses, payment was made after a number of days. The process also took longer where a police incident number was required to prove the loss or theft of a purse or giro.

The application process received quite a lot of criticism from those who had experienced it. Although the process was relatively quick in an emergency situation, certainly quicker than Budgeting Loans applications were, there was some feeling that the decision making process should be even more immediate. One respondent talked about how she received her giro with only just enough time to cash it before her local Post Office shut.

The application form was also criticised. Some described it as being too long and complicated, and reported that office staff were not always willing to help with its completion. People new to the Social Fund (and sometimes new to the benefits system as a whole) felt the questions were too intrusive. For example, one woman recounted how she was required to give the details of her recent divorce on her application, which to her appeared overly personal. There was also some feeling that the process assumed dishonesty on the part of the applicant which was distressing for some.

[Interviewer] *'How did you feel about receiving a Crisis Loan?'*

[Respondent] *'I'll be honest with you, I feel embarrassed, very, very embarrassed because in this sort of situation I've never been in my life, it's just last year was the worst year of my life.'*

[Interviewer] *'And how did they treat you the people in the DSS?'*

[Respondent] *'[...] They were helpful to me but they'll ask a certain question like 'what have you done with the previous money?' So when I say to them I paid the landlord they'll say 'have you got your pay slip with you?' – 'the landlord hasn't given me a pay slip, where am I going to get that pay slip from?'. So they're all 'is he telling me the truth or not?' you know it was that kind of situation. Then they said 'all right, you can have it.'*

(Male, 31, South Asian, couple with children, Crisis Loan user)

More experienced users, however, found the application process to be an improvement on how it used to be, when applicants had to attend an interview to discuss why they needed a Crisis Loan.

A key concern for Crisis Loan applicants was having to apply in person for a loan, and in particular having to wait for hours in the what they described as the depressing environment of a 'social security' office. This was evidently off-putting for some,

'I didn't like going down [to the social security office]. I didn't like having to go. I felt like I was begging. Because there's that many – I don't mean this wrong – smackheads and down-and-outs when you go down, sitting there, and I felt a bit, I didn't feel right sitting there. I won't have a Crisis Loan again unless I was really desperate.'

(Female, 60, white, single pensioner, multiple Social Fund loan user)

A repeated criticism of Crisis Loans was that the offers were generally below the level expected or needed by applicants. One man was dismayed that he was expected to live on £23 for five days following the loss of some of his benefit money. However, despite some dissatisfaction with the offers made they were hardly ever turned down. It was clear that applicants for Crisis Loans needed what little money they could get in order to survive, and were loath to question the process or the result.

4.2 Use of Social Fund loans

This final section looks at how Social Fund loans were used by those interviewed in this study. It explores frequency of usage, the reasons why people chose to borrow from the Social Fund and what the loans were used for. The section ends with an examination of how experiences of using the Social Fund shaped attitudes towards future use.

4.2.1 Frequency of use

In order for the study to reflect as diverse a range of experience as possible, respondents were recruited to one of the following groups, those who had:

- only ever used Budgeting Loans;
- only ever used Crisis Loans; or
- used a combination of both.

Across these three categories, users varied in terms of the frequency of their use of the Social Fund. Three types of users are evident:

- *One – off users.* Those who had used either type of loan only once.
- *Occasional users.* Those who had used either type of loan or a combination of both loans a number of times but not on a regular basis.
- *Regular users.* Those who had used either type of loan or a combination of both loans regularly. Whereas Budgeting Loans were used by some up to twice a year, it was on the whole less common for Crisis Loans to be used as frequently, although not impossible.

In addition, some of these respondents had also either used or applied for Community Care Grants. Usage of this element of the Social Fund is not covered in detail, as it was not an objective of this study.

4.2.2 Factors governing use of Social Fund loans

The Social Fund was seen to have a number of distinct advantages over other forms of borrowing. These included:

- *Loans do not incur interest:*
 - The lack of interest was seen as a key and unique advantage of Social Fund loans. For the debt averse this made the Social Fund a more acceptable form of borrowing, and it provided an additional source of income for those who found it impossible to save.
- *Repayments are deducted directly at source:*
 - Another important advantage of the Social Fund loan was seen to be the fact that the repayments were deducted directly from benefit or pension. This meant that there was no possibility of defaulting on the loan. This aspect of the loans was also more acceptable for the debt averse, and to those who considered themselves to be inefficient managers of money.
- *Lack of other sources of credit available:*
 - While respondents borrowed from a variety of sources (see Chapter 2), some were attracted to the Social Fund either because they had exhausted these, or because they did not feel that other sources were available to benefit or pension recipients.
- *More discreet than other loans:*
 - For those who were not happy with having to claim benefits at all, Social Fund loans were seen to be a discreet source of credit. Unlike private loans, where the lender would come to the door, Social Fund loans could be applied for and received without neighbours, friends and wider family knowing.
- *Availability:*
 - Some clearly used the loans because they were available. Regardless of circumstances or need, they felt entitled to use the loans because they were benefit recipients. This was particularly true of more regular users of the loans.

One respondent was able to sum up the many benefits of borrowing from the Social Fund in a few sentences:

'I was very pleased to have access to Social Security loans. [...] Because if you've got no other access to money it's very good [...] to be able to borrow money for an item that you couldn't otherwise get, if you're not credit-worthy and you can't get things on credit and you've got an item that's too much for your weekly budget or whatever. How are you going to pay for that thing? You can't do it, the only way you can do it is get a lump sum. Like doing up the

kitchen, how could we have done that? We couldn't have done it otherwise at all. And we don't have access, as I said we don't have access to other loans. [...and] private loans tend to have very high interest rates. Another good thing with the Social loan is that you're not paying interest, you're just paying off the money that you have borrowed, which is great.'

(Female, 43, black-Caribbean, couple with children, multiple Social Fund loan user)

The Social Fund was, however, not without its disadvantages when compared to other forms of borrowing available to those on low incomes, namely private loan companies. When compared with lenders like Provident, the Social Fund was perceived as less favourable in terms of its:

- *Flexibility:*
 - The Social Fund was seen to be much less flexible in terms of the amount that could be borrowed and the repayments. The benefits of a private loan were that people were more likely to receive the amount they wanted, and they could also reduce, or even miss, repayments where it suited them.
- *Convenience:*
 - The application process and time taken to receive the loan (more so for Budgeting Loans) were seen as a major disadvantage of Social Fund loans compared to private loans. Funds from private loan companies, catalogues, 'club men' and so forth were much more immediately available, and therefore seen to be much more convenient.

'If you want money straight away you get it off a loan company, where the social security usually takes a week before you find out. If you're desperate it's the loan company, if you want it there and then. If you can wait it's the social.'

(Female, 63, white, single pensioner multiple Social Fund loan and TPD user)

- *Repayment levels.* The final criticism of Social Fund loans was that repayments were often too high, which made it hard for respondents to budget. Repayment rates and their implications are covered in detail in Chapter 6.

4.2.3 How Social Fund loans are used

Budgeting Loans were used for a wide variety of reasons:

- *To purchase household goods* – most commonly cited were beds for children, cookers and washing machines, but loans were also used to pay for electrical goods such as televisions or audio equipment.
- *To pay for clothing* – Budgeting Loans were used for to pay for clothing, footwear and bedding for children. They were also used for adult clothing needs but to a much lesser extent.
- *To allow for home improvements* – for example: painting, decorating, to cover the cost of new carpets or furniture. Loans were also used by owner occupiers to pay for essential building work and to boost home security.

- *For special occasions* – buying Christmas presents and covering the overall cost of Christmas was one of the most common uses of Budgeting Loans. Holidays (mainly day trips) were also paid for by funds generated through Budgeting Loans.
- *To service debts and pay bills* – Budgeting Loans were also taken out to help people pay debts such as catalogues and fines, and to top up electricity or gas payment cards and meters.
- *For everyday needs* – food shopping was often boosted by any money left over from a loan. Day-to-day travel expenses were also covered by any surplus funds.

The role of Budgeting Loans within a household varied considerably.

It is possible to identify two extremes: those who relied on the loans for emergencies only, and those who used the loans to boost everyday spending and their financial management system. Those who relied on the loans for emergencies, borrowed less frequently and used them for buying much needed household goods like beds for children or a washing machine. The loan was generally seen as something out of the ordinary which had a specific purpose. In contrast, those at the other end of the spectrum who relied on the funds from loans to boost their regular income and keep their household afloat financially, applied much more regularly and used the loans for other uses such as holidays, to pay off other debts or Christmas expenses.

The most common reasons for applying for a Crisis Loan were to cover lost or stolen giro, purses or wallets, late pension or benefit payments or wages and to bridge the gap at the start of a benefit claim or at the end of a job. People had also taken out loans to pay for clothing and travel expenses for attending funerals, to pay a rental deposit or household bills, to buy bedding and clothing for children, to replace a broken cooker, and finally to pay for moving children to safety away from an abusive home life.

4.2.4 Future use of Social Fund loans

Clearly people's experiences of using Social Fund loans influenced whether they would use them again in the future. Those who had had more positive experiences were more likely to continue using the fund, whereas those who had had more negative experiences were much less likely to apply for further loans. On the whole, users of Budgeting Loans appeared to have had more positive experiences than those who had applied for Crisis Loans, and were therefore more keen to continue using the service than Crisis Loan users were.

It was common for Budgeting Loan recipients to talk about how the loans had allowed them to pay for things that otherwise they would have been unable to afford. In fact, in some cases respondents had come to rely on Budgeting Loans. This was particularly true of more regular users, who took out a loan every six or twelve months:

'I think I'm grateful that...they've got the system they've got. [...] Because if they didn't and I couldn't have like a Budgeting Loan and stuff like that then I couldn't manage, I don't know how I'd pay it to be honest with you.'

(Female, 46, white, lone parent, Budgeting Loan user)

In contrast, those who had had negative experiences of Social Fund loans reported that they would not use them again in the future. This was more common amongst Crisis Loan users who could not see the advantage in borrowing when the offers were so low. Negative experiences of the application process – the sometimes intrusive questions on the application form and the unpleasant surroundings of 'social security' offices – were also said to discourage future use. Rather than use Crisis Loans again, dissatisfied users said they would prefer to borrow from friends and family, take out a private loan or do without.

Finally, regardless of which loan was used, the debt averse also talked about how they would prefer not to have use the Social Fund again, unless it was absolutely necessary. Whilst this type of borrowing was seen to be more acceptable, it still constituted a form of debt in their minds, and was to be avoided.

The report now turns to look at understanding and experience of TPDs, before going on to look at direct deductions from benefit (for loans and payments to third parties) and their consequences for the household concerned.

5 Understanding and experience of Third Party Deductions

This chapter explores participants' understanding and use of Third Party Deductions (TPDs). It begins with a short description of TPDs, following which awareness and understanding of the facility is explored. The remainder of the chapter is concerned with respondents' use of TPDs, particularly the circumstances surrounding their arrangement. Finally, attitudes to TPDs are described and explained.

5.1 Background²

A TPD³ is a facility, provided by the Department for Work and Pensions (DWP), which enables benefit and pension recipients to pay off arrears by means of a regular deduction taken at source from benefit or pension payments. No extra money is provided by the DWP to the customer, instead a percentage of the usual benefit or pension payment is paid directly to one or more creditors. This means that the person effectively receives less direct income from benefits or pensions until the arrears are paid in full. To be eligible for a TPD, a person must be in receipt of Income Support (IS), Jobseeker's Allowance (JSA) or Pension Credit. A set amount can be deducted for up to three individual debts (or four where there are Council Tax or court fines arrears)⁴. TPDs can be used to repay a variety of different types of arrears, such as:

- housing costs – Rent, mortgage interest payments or care home fees;
- utility bills – Gas, electricity, water or sewerage charges;

² DWP IS9 Leaflet, April 2004.

³ Until 1 April 2003, TPDs were known as Direct Payments. Direct Payment is now the term used to refer to benefit or pension payments that are paid directly to a customer's bank account.

⁴ Up to three payments of £2.80 each can be deducted from an individual's regular weekly.

- Council Tax or Community Charge;
- benefit overpayments; and
- court fines.

In respect of utility bills, an amount to cover current consumption can be deducted in addition to the set amount for the arrears, to ensure the debt does not re-accumulate. TPDs can also be used to cover current costs in the following specific circumstances:

- once a TPD has cleared an outstanding utility debt, the direct deductions may be continued in certain circumstances to allow for the payment of current costs only;
- where difficulties arise in budgeting for care home costs, TPDs are always used for current costs.

5.2 Awareness and understanding of TPDs

There was a remarkably low level of awareness of TPDs amongst those interviewed. One feature of this was that no one interviewed used the term 'third party deduction' or anything closely resembling it. On the occasions when current or recent users were prompted on possible names for the facility, they were generally uncertain. This might be explained by the relative newness of the term; however, there was little use of the term 'direct payment' either, or anything similar to it. Instead, TPDs were usually described as '*having money taken off my book*'.

As one might expect, awareness was scant or non-existent amongst those who had not used the facility (a part of the sample were Social Fund users only). Amongst current or recent users, there was a general grasp of the concept – and some described it as being akin to, though not the same as, a direct debit facility. However, even amongst users of TPDs, their understanding of why TPDs were offered, whom they were offered to and how they operated was very patchy. Lack of comprehension pervaded the descriptions users gave about how TPDs operate and they were nowhere near as well informed or as comprehensive as the descriptions offered about the workings of the Social Fund (outlined in Chapters 3 and 4). Indeed, it is fair to say that TPDs were consistently misunderstood or misinterpreted, even by the more 'informed' user. This related to a range of features, specifically:

- *The circumstances or conditions governing eligibility for a TPD:*
 - There were some who were aware that TPDs formed part of the service offered by the DWP to benefit or pension recipients who experienced difficulty with budgeting. Conversely, others appeared to be under the impression that it was a facility that was in some way unique to them, because of the difficult financial circumstances they had found themselves in.

- *How a TPD was set up:*
 - There was, at times, a lack of clarity about how a TPD could be set up. Some users were certain that a TPD could be imposed or requested, however others were less sure. Moreover, there were some who were definite that a TPD could *only* be either imposed or requested, generally because they only had experience of one route or the other.
- *The number of TPDs that could be operated at the same time:*
 - There was confusion about the number of TPDs an individual could have simultaneously. For example, some of those with only one TPD were convinced that they could not have any more until that one was completed. Others knew that it was possible to have more than one deduction at a time. However, it was rare for anyone to know precisely how many one could have at the same time.
- *How repayment rates are set:*
 - There was extensive ignorance about this amongst those interviewed. There was some suspicion that they were linked to total income but little certainty about whether this was the case, or about how they might be related. Some suggested that repayment rates were established in accordance with income. There was general agreement that repayment rates were set by 'the social'. The only exception was amongst those whose arrears had been the subject of court proceedings, who felt that rates were set either by the Courts, by the DWP or some combination of both.
- *Whether and how repayment rates can be revised:*
 - Some were definite that repayment rates could not be altered, while others knew that rates could be revised where it could be demonstrated that they led to financial difficulty. Precisely how this could be arranged was clearly a mystery to some however, though there were descriptions by some users of how they had successfully renegotiated repayment rates by contacting a Jobcentre to explain their predicament.
- *Whether additional payments can be made to the creditor:*
 - There was some limited awareness that additional payments could be made to creditors, in addition to the regular deductions direct from benefit or pension payments.

'Understanding' of TPDs appeared largely governed by experience, rather than by any written or oral sources of information or advice. Indeed, this perhaps accounts for the range of misinterpretations that exist regarding the facility. There were some who reported having conversations about TPDs with DWP staff – either on the telephone or in a Jobcentre. Creditors were also cited as a source of information about the service. However, where explanations of the service had been received from either of these sources, the information was generally felt to be difficult to digest or understand. Neighbours, friends or relatives were also identified as a source of information about TPDs, but also seemed to be the source of much of the misunderstanding that was apparent.

No one recalled receiving any written information on how TPDs operate. This lack of easily accessible written information about TPDs was the source of much derision amongst those interviewed. It was common for respondents to comment that such information would be of use. Indeed some were prompted to suggest that written information should be available through community venues – like post offices, libraries, Jobcentres, hospitals and GP surgeries or that local councils could advertise on billboards and distribute such information door-to-door in more deprived neighbourhoods.

The lack of information and awareness amongst some users about the circumstances of their own TPD(s) was startling. Respondents sometimes confessed that while they knew they were having deductions for some class of arrears, they were not entirely sure what the arrears were:

'I know I'm getting me benefits but I don't know how much they're taking off me or what they're taking it off me for.'

(Male, 36, white, disabled couple with children, multiple Social Fund loan and TPD user)

Even when respondents were clear that they had a TPD and knew the purpose of it, there was widespread ignorance about the terms of the arrangement. This concerned a number of issues. Recall of key details – like when a TPD started – was poor. Moreover, while it was common for respondents to be able to give some broad estimate of the amounts of money being repaid by TPD, they were much less able to give any indication of how much was outstanding, and consequently how long the remaining deductions would continue for. There was also a lack of clarity about whether deductions would stop once arrears had been cleared or would continue in some way to pay for current costs in relation to that expenditure item.

The degree of ignorance was so great in some households that it prompted suggestions that more could and should be done to increase individual awareness and understanding of the terms of TPD arrangement(s), specifically to keep individuals up-to-date about the progress of repayment, and the balance of arrears outstanding.

This lack of awareness and understanding of TPDs has implications for how useful they can be to those in financial difficulty. The language used to describe the facility and the apparent lack of written and accessible information undoubtedly hampers awareness of TPDs. Even in this small and statistically unrepresentative sample, sixty per cent of those interviewed had arrears that were not currently subject to TPDs. While some were able to budget for these, others reported them to be a struggle. They could well have benefited from the assistance offered by TPDs if they had been aware of it. Respondents too were keen to point this out:

'I know people around here that are struggling with the rent and things like that, and they don't know about this [...] So, if the social handed out leaflets or sent letters out, the more people that knew about it, the more people that would jump onto that scheme straight away.'

(Male, 39, white, couple with children, multiple Social Fund loan and TPD user)

Furthermore, if benefit and pension recipients do not at least have some cursory understanding of how the facility works, and how it might apply to them, it will be difficult for them to make proper use of it when they most need it.

5.3 Experience of TPDs

5.3.1 Overview of TPD use

Participants in the study were selected because they had current or recent experience of TPDs. Twenty of the 45 respondents interviewed had been subject to a TPD within the last 12 months. Those interviewed comprised first-time and repeat users of TPDs. However, persistent use of the facility (i.e. using it more than three times) was rare. That said, recall of the precise details of TPDs was, as highlighted above, less than exact, and it is possible that respondents' accounts overlooked less recent experience of TPDs. The reasons why respondents had TPDs covered the full range described earlier in this chapter – housing costs, utility bills, council tax or community charge arrears, benefit overpayments and court fines.

5.3.2 How TPDs were arranged

A key distinction can be drawn between cases in how their TPDs had been arranged. Two distinct experiences are evident: those who had a TPD imposed upon them, and those who themselves initiated the TPD. There were also, of course, some multiple or repeat users who had experienced both. The circumstances surrounding each route are different. However, full or exact descriptions of the process were often hampered by partial respondent recall. Lack of a complete understanding of the process (as highlighted above) seemed to hinder the certainty with which respondents could remember the components of their own experience and led to further confusion. Notwithstanding these difficulties, it is possible to distinguish certain key facts about the different arrangement processes.

Where TPDs were imposed, it was usual for respondents to recall being told of this in a letter from the DWP. Some remembered that they had received other earlier letters asking for their consent to set up a TPD, which they had ignored. Conversely, the letter detailing the imposition of the TPD was for others the first occasion that they could recall the facility being mentioned. In addition to this written warning, there were some reports of being visited by a person at their home, or of being telephoned, but no real clarity about whether these contacts had been made by a representative of the Department, or by the specific creditor concerned.

Where respondents instigated the TPD themselves, this was done either by telephone or in person at a local Jobcentre Plus. Unsurprisingly, given the discussion earlier, there were different levels of knowledge motivating these requests. This had a fundamental impact on the directness of the approach, and the certainty with which people felt they could ask for 'help'. For respondents who were aware of TPDs (because they, or a member of their family or social network, had used them in the past; or because they were directly informed by a creditor), there was much greater clarity about their entitlement to help and, consequently, greater confidence that the DWP would be able to help them with their financial difficulty. Those who were unaware of TPDs gave two contrasting accounts of their journey. One set of respondents approached the DWP with the same sense of assurance as that described above, because they felt it was 'common sense' that the Department would or should provide support to those on a low income who were experiencing problems with arrears. Others, however, appeared to lack this assurance about who could help or how their financial difficulties could be resolved. Indeed, it was common for them to report approaching the DWP because of a vague belief or hope that they would be able to offer some help to them, rather than because of any firm grasp of their entitlement to support or assistance.

5.4 Attitudes towards TPDs

A diverse array of user attitudes towards TPDs was observed, ranging from the wholly positive to those that were negative in every respect. It is perhaps tempting to assume that imposed TPDs lead to negative attitudes and requested TPDs lead to more positive ones, however resulting attitudes are not so straightforward or obvious. Indeed, it appeared that respondent attitudes were determined much less by the manner in which TPDs came about and more by a combination of other issues. These concerned:

- *whether the TPD was seen to be 'fair';*
- *how effectively the TPD was explained and implemented;*
- *whether financial independence was seen to be compromised.*

5.4.1 Fairness

Where TPDs were regarded favourably, it was because the system was seen to be fair and the arrears justified. In these circumstances, those interviewed were generally committed to taking responsibility for the debt that they had accrued. However where fairness was seen to be compromised, it led to much less positive portrayals of the facility. This happened in two ways. First, the very principle of deducting arrears from benefits and pensions was disputed by some, because it was felt to reduce the amount of money available to those on an already low income could potentially lead to financial difficulty. This argument against TPDs is consistent with attitudes expressed by some about the idea of direct deductions more generally (i.e. for Social Fund loans *and* TPDs) and is discussed in more detail in Chapter 6. Second, where

the cause of the arrears was felt to be unjust or unwarranted, this could blemish people's views about TPDs in general. For example, one pensioner had a TPD imposed upon her because tenants in a property she owned had not paid Council Tax for the duration of their tenancy. She was adamant that she should not be liable for the arrears, and this made her view TPDs in a less than positive light. Similarly, one of the unemployed couples interviewed challenged the idea that anyone should have to pay for water, and viewed a TPD imposed upon them to clear their arrears to the local water company to be unreasonable. However, disputing the basis for one TPD did not always lead to negative views about TPDs in general. Indeed, some could still see the benefits of the facility. For example, a lone parent who did not consider herself liable for the £1,000 rent arrears she had accrued still felt that the TPD system could be of benefit to her in helping to manage financially.

5.4.2 Effectiveness

More positive attitudes were voiced by those who felt the TPD (whether requested or imposed) was well explained and efficiently implemented by the DWP. Those who were more aware of the purpose of a TPD, and had some understanding of how they worked, as well as the terms of their own arrangement, were more likely to be supportive of the service. The more patchy the understanding, the more likely people were to portray the TPDs in a negative light. People sometimes bemoaned the lack of information available on TPDs, which had led to confusion and bewilderment about how they worked. The most important factors in the set-up process were the nature of support received and the clear signposting of what was required of the benefit or pension recipient. Where these were below par, it had a clear effect on people's views about the service.

5.4.3 Independence

A key determinant of people's views about TPDs was whether they were seen to compromise an individual's financial independence. There was insistence in some quarters that TPDs removed individual choice and self-determination, and lessened the control that a person had over the management of their finances. Unsurprisingly, this attitude was common amongst those who had their TPD imposed. However, this was by no means a unanimous view. Others who had their TPD imposed, as well as those who requested a TPD, generally acknowledged that TPDs might remove some independence, however, they placed equal or greater emphasis on the benefits of the facility.

Four main benefits were discussed. First, it was felt that without the discipline bestowed upon households by TPDs, arrears would go unpaid, or even worse, would increase. Regular deductions at source were seen to give arrears a new priority in household expenditure and to avoid income being spent on extra shopping or leisure activities. This meant that arrears were paid back more quickly than they otherwise would have been. Second, TPDs were seen to protect people from the penalties attached to non-payment of arrears such as court appearances, prison sentences, or visits from bailiffs. They were also seen as a way of preventing

the discontinuity of utility services like gas or electricity, and of avoiding eviction. These benefits were given particular emphasis by those with children, especially lone parents. In this respect, TPDs were seen to offer security and assurance to those in difficult financial circumstances:

'I got a letter saying like they were going to start deducting, I think it were £2.40 or £2.50 a week out me benefit. I just thought to myself, oh thank God for that, because I'd started getting snidey letters which do scare you when you're in my predicament, that if this isn't paid, you know the outstanding arrears, we're going to take you to court for a possession order, and you think to yourself, well what are me and kids supposed to do? And it is very scary. So when that [TPD] was done I was just so relieved.'

(Female, white, 38, lone parent, multiple Social Fund loan and TPD user)

Other benefits were also felt to compensate for this loss of independence. Paying arrears by deduction from benefits was said to assist with budgeting and to make managing other debts easier. Some, who acknowledged their lack of skill at financial management, expressed a desire to have all their housing costs and utility bills paid in this way – whether they were in arrears or not. This, it was felt, would mean that current arrears could be paid off and future arrears prevented from occurring.

Finally, some emphasised the convenience of the system over and above any concerns about their self-determination being eroded. Those who had previously paid their arrears in person using a payment card or book at the post office, bank or a local authority office, sometimes emphasised the inconvenience or cost associated with this method of payment. Direct deductions, by contrast, were seen to be simpler and more convenient. This benefit was given particular weight by those with young children, those with physical impairments, or those who lived some way from these services.

The penultimate chapter explores the views expressed about direct deductions for Social Fund loans and for payments to third parties, as well as the impact these had on the households concerned.

6 Direct deduction and its implications

This chapter looks in detail at the issue of direct deductions from benefit for the repayment of Social Fund loans and for payments to third parties. Following some background about how repayment rates are set and their level within the sample interviewed, the differing views about direct deduction are examined. This is followed by an exploration of how repayment affected financial management. It then goes on to explore the impact of direct deduction from benefit or pension payments, specifically its implications for financial and material circumstances.

6.1 Background

Budgeting and Crisis Loans are repaid by deduction at source from Income Support (IS), Income-based Jobseeker's Allowance (JSA(IB)) and Pension Credit. They take into account housing costs and any other financial commitments, such as debt. Repayments are typically spread over 78 weeks, but in exceptional cases can be extended to 104 weeks. The rate of repayment can vary but loans are typically repaid at a rate of between five and fifteen per cent. Generally, the fewer the financial commitments a household has, the higher the rate of repayment. The highest repayment rate that can be offered to applicants is 25%. As outlined in Chapter 5, up to three separate TPDs can operate at any one time, or four if one of them relates to Council Tax arrears or a court fine. A standard amount of £2.80 is deducted for each creditor per week. Payments to third parties do not usually exceed 25% of income (Department for Work and Pensions (DWP) IS9 leaflet April, 2004; DWP SB16 leaflet April, 2004; Child Poverty Action Group, 2004).

Across the sample there was much variation in the total proportion of income that was being deducted from benefit or pensions to cover loans and/or payments to third parties. The lowest deduction was one per cent (for a Third Party Deduction (TPD)) while the highest was 72% for a Crisis Loan repayment that was made in one instalment. However, repayment rates of this proportion were the exception. The majority of deductions were under 25% of total income, with most being 15% or less.

6.2 Views about repayment

There was general support – amongst Social Fund loan recipients and TPD users – for the principle of repayment and, at the very least, tacit acceptance of responsibility for loans and arrears outstanding. There were two exceptions to this. First, some were opposed to the principle of repaying loans and arrears. Here, it was argued that deducting money from benefit and pension recipients was likely to result in financial or material hardship. This was primarily an argument against Social Fund loans and in favour of grants to those on low incomes. Some, for instance, recalled the benefits of the system of ‘single payments’ that existed prior to the Social Fund, and argued that this was a better way of helping those who were in financial difficulty. Alternatively, some agreed with the idea of repayment but challenged the reason for it in specific circumstances. As highlighted in Chapter 5, some TPD users disputed the fairness of such deductions, and this led to opposition to repayment. Also, some who had taken out Crisis Loans to cover a late benefit or pension payment, often voiced their opposition to deductions from benefit or pensions to repay such loans.

Notwithstanding these exceptions, the direct deduction facility was generally well received. Many of the benefits of TPDs outlined in Chapter 5 can be extended to deductions for Social Fund loans as well, namely that it increased the priority shown to debt and arrears within the household; helped with budgeting and managing debt; it gave peace of mind and was convenient. So too, however, can the criticisms made of TPDs, particularly that direct deduction diminishes financial independence and reduces self determination.

6.3 Views about repayment rates

The rate of repayment was perhaps the most contentious issue concerning direct deductions from benefit, and in particular, whether and why certain rates were acceptable. A principle determinant of acceptability was, undoubtedly, the rate of deduction. There was a general perception, amongst those repaying Social Fund loans, and those having deductions for loans and payments to third parties, that repayment rates were too high. In contrast, there was much less criticism of repayment rates among those who were TPD users only. The rates here appeared, in the main, to be more acceptable.

Where rates constituted a very large proportion of income (particularly above 20%), they were almost always considered unacceptable because of the impacts they had on households’ abilities to make ends meet. However, in general, there was much variation in how rates below 20% were interpreted. Higher rates of repayment (between 15 and 20%) were accepted by some without any dispute. Indeed, some saw clear benefits of higher repayment rates. A couple with a TPD said that although they were paying back an amount that represented 15% of their income, at least their arrears would be paid off sooner. However, repayment rates under this amount, sometimes significantly under, were considered by others to be untenable. For example, a rate of six per cent to repay a Budgeting Loan was considered too

much for a pensioner couple because it meant that they had to make cut-backs on their spending:

'It was quite a lot. [...] We found it hard, we found it hard. When you went to collect your pension and you're ten pound down between us. [We had to cut back on] food [...] Sometimes we didn't get out so much, especially in winter time. If you stay in, you save five pound or ten pound. You know, at the weekend, well I used to go to football I've cut it down, football's very dear now, you know?'

(Male, 71, white, pensioner couple, Budgeting Loan user)

It would be difficult and misleading to define the boundaries of acceptability based purely on the percentage of income deducted, because perceptions on the whole were governed by a range of other, and equally important, considerations. These encompassed:

- *Fairness of repayment rate:*
 - Some of those interviewed judged their own repayment rate in light of what they knew of the rate which loans and arrears were paid back by others – such as friends and family. Such analysis clearly affected views about the fairness, and consequently the acceptability, of their own level of repayment. For example, a woman who was having deductions for a Budgeting Loan and a TPD user was dissatisfied because her deductions were at a higher rate than someone else she knew who had borrowed a higher amount. Lack of understanding of how repayment rates are set clearly lie at the root of such misinterpretations.
- *Honesty in the application process:*
 - As noted earlier in the report, not everyone was entirely forthcoming about the nature of their weekly outgoings on the application form for Social Fund loans. This meant that repayment rates were often higher than was feasible for a household. However, such rates were often accepted because to challenge them meant that they would have to admit previous non-disclosure of other household expenditure, particularly other debt.
- *Frequency of use:*
 - Repayment rates, even high ones, were more readily accepted by those who borrowed regularly from the Social Fund. Those who took out a Budgeting Loan every six or twelve months were often subject to continuous deductions from benefit or pensions. To this end, they had become accustomed to existing on a lower level of income and were generally accepting of that.
- *Gratitude for the service:*
 - Some Social Fund loan recipients were so grateful for any help received that they felt they should accept without question whatever terms were laid down in the offer letter (where no choice was offered).

- *Level of existing debt:*
 - The level of existing debt that some people had was such that they paid little attention to whether a repayment rate was acceptable or not. This was sometimes related to an apathy about debt. Alternatively, the focus of attention was often on the funds that could be gained through Social Fund loans, rather than the repayment of them. In one example, a couple with a high level of existing debt – from credit cards, bank loans, loan sharks and catalogues – expressed little concern that 14% of their income was being deducted to repay a Budgeting Loan.

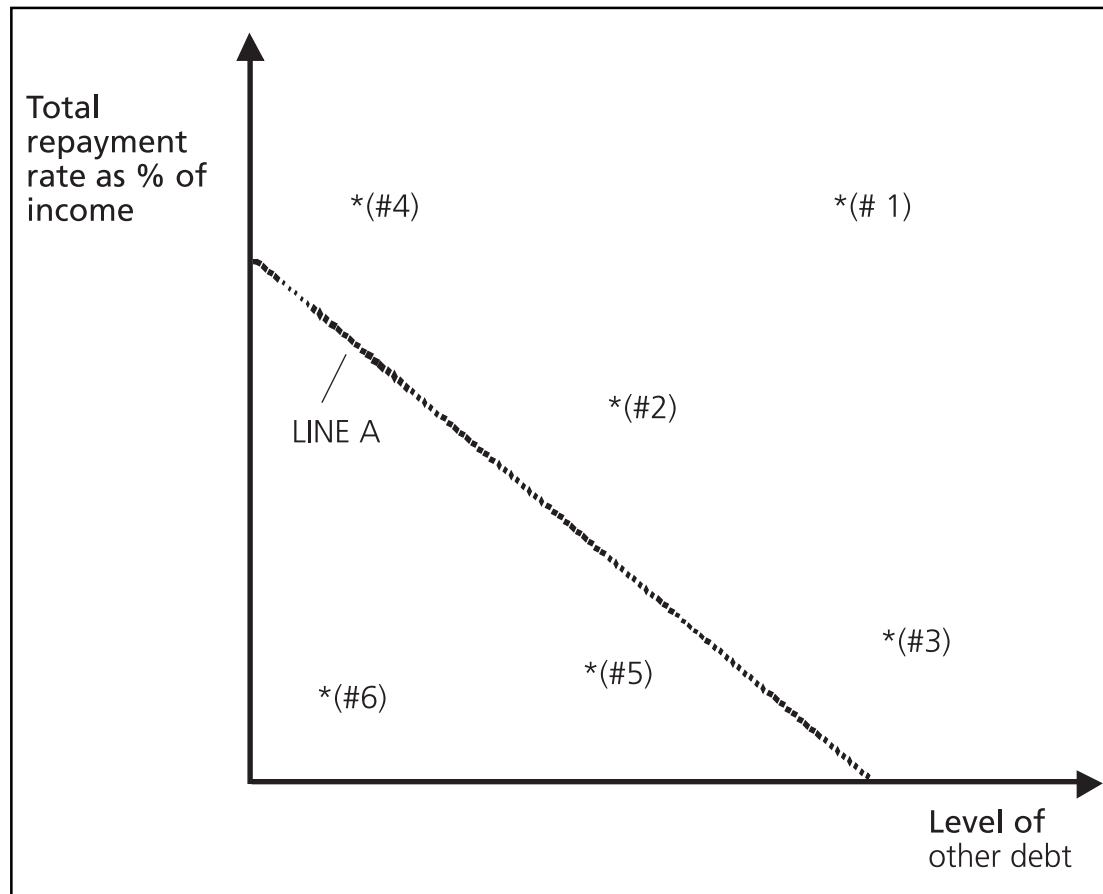
6.4 Impact of direct deductions on financial management

More important than whether a repayment rate was considered acceptable, was whether it was manageable for the households concerned. The different levels of skill in financial management have been outlined in Chapter 2. Two extremes of proficiency were described: *competent budgeters* who successfully balanced their income against outgoings and *deficient budgeters* whose household expenditure was often in excess of income. Direct deductions had a clear impact on financial management, whatever the extent of their natural skill in this domain. The nature of this impact was determined by the combination of two key factors:

- the total proportion of money deducted from household income; and
- the level of other debt repayments within the household.

It is the relationship *between* these two factors and not the repayment rate per se that governs whether a household can manage the effects of a direct deduction. This relationship is illustrated in Figure 6.1.

Figure 6.1 The relationship between repayment rate, debt and financial management



Line A denotes the point at which these two factors combine to affect financial management. Thus cases above this line found repayment less manageable. This involved the following combinations of circumstance:

- A *high* repayment rate and a *high* level of other debt (case #1)

Case example 1: high repayment and high level of debt.

Sarah, 43 and John, 29 are a couple with a three year old son. They have been making a joint claim for Jobseeker's Allowance (JSA) for the last four years. Sarah is currently doing some voluntary work.

They took out a £600 Budgeting Loan in the autumn of 2003 to pay for decorating their kitchen and to finance a new cooker. The repayments of £21 per week account for approximately 15% of their total income.

They are also trying to pay back a number of other debts including two student overdrafts, gas arrears and a 'slate' at the local shop. They both also have student loans that they have deferred. In order to manage they have to juggle their bills and 'keep everything cut to the minimum'. They also bake their own bread and cook meals from their own recipes rather than buy expensive pre-packed foods.

- A *medium* repayment rate and a *medium* level of other debt (case #2)

Case example 2: medium repayment rate, medium level of debt

Jenny is a 31 year old lone parent with two children. She has recently moved to a new area following the breakdown of her marriage. When she was married she used to work part-time managing a shop.

She is currently repaying a £279 Budgeting Loan taken out to pay for a washing machine and furniture for her children. The weekly repayments of £22 account for 13% of her total household income. She also pays money off a catalogue debt each week and has TV licence arrears. She feels that this combination has affected her ability to make ends meet. Recently she has attempted to cut back on food shopping to compensate for what she considers to be a high level of debt repayment.

- A *low* repayment rate and a *high* level of other debt (case #3)

Case example 3: low repayment rate, high level of debt

Claire is aged 41 and Paul is 49. Together they have three children. They are a married couple claiming Incapacity Benefit and IS. Neither has been in paid work for about ten years, but they are both doing voluntary work at the moment.

They are currently paying a TPD for a £56 benefit overpayment due to inappropriate use of a deceased relative's pension book. The £3 deducted every week represents one per cent of their total household income but is perceived to be unmanageable due to the high level of other serviced debts, including a credit union loan, a hire purchase agreement, an overdraft, a credit card and a loan from a private company. The impacts of this combination are cut-backs on food shopping and non-payment of their TV licence.

- A *high* repayment rate and *little or no* other debt (case #4)

Case example 4: high repayment rate, little or no other debt

Susan is a 44 year old lone parent with two children. She used to work part-time at her local supermarket up until August 2003. She borrowed £500 in the form of a Budgeting Loan to pay for a new carpet and beds for her children. Despite having no other serviced debt her Budgeting Loan repayments (£26 per week) represent what she describes as a '*killer*' 22 per cent of her total weekly income. This means she has to '*watch every penny*'. She has tried to reduce her expenditure on food shopping and to pay less on her household bills.

Conversely, cases below Line A where the level of debt and the level of repayment are low, found it hard to perceive any real impact on their ability to manage financially, as the case examples below illustrate. This is consistent with other research conducted which has found that benefit recipients find it difficult to estimate the impact of small changes in income (Farrell and O'Connor, 2003).

Case example 5: low repayment rate, low level of debt

Jane is a 26 year old lone parent who lives with Katie her four year old daughter. She worked in a factory full-time before Katie was born, and even worked part-time afterwards, but gave up because she did not feel she was financially better off.

She took out a Budgeting Loan for £200 at the end of 2003 to pay for Christmas presents. She repays this at the rate of £5 a week, which is approximately three per cent of her total weekly income. She also has a small catalogue debt but uses the proceeds of her Child Benefit to make payments on this. She feels that the 'extra' repayment for the Budgeting Loan has affected her only slightly and that it has been easy to budget around the deducted amount.

Case example 6: low proportion of income, no other debt

Alice is a 60 year old single pensioner living with her disabled son Tim. She owns her own home (which she bought from the local council), and has lived there for 35 years.

In recent years she has cleared a lot of her debt (credit cards, hire purchase, private loans, and water, gas and electricity arrears), and so now the only debt she has, with the exception of her mortgage, is a £200 Budgeting Loan which she took out to pay for some decorating. The weekly deduction of £9 equates to around six per cent of her income.

She was very clear that the repayment did not make it difficult for her to make ends meet. She described her repayment as being 'very fair'. She was very grateful for the loan she had been given and for help she had been given in the past to help her pay off her arrears through TPDs.

The location of Line A is itself dictated by how proficient the household is at financial management to begin with. In this sense, a good financial management system can act as a buffer to the combined effects of repayment rates and levels of debt. The reverse is also true. A bad or non-existent financial management system can mean that negative effects can occur more easily. The positive and negative effects are described in more detail later in this chapter.

Finally, where applicants had deliberately, or otherwise, failed to disclose details of all their financial commitments on the application forms for Budgeting Loans or Crisis Loans, repayment rates were consequently calculated on a fictitious level of

disposable income. This meant that they were often higher than the household could afford and could lead to adverse effects on financial and material circumstances.

6.5 Complaining about repayment rates

The regulations surrounding direct deductions permit users to request a review of the rate of repayment if they feel that the amount deducted is unacceptable or unmanageable. There were some instances where this had occurred, however, on the whole there was less clarity about what circumstances were considered important in the renegotiation of a repayment rate.

[Interviewer] *'And did they at any point discuss with you how much money you could pay back?'*

[Respondent] *'They send you a letter 'we agree we can pay £200 and this will be repayable from such and such a date at £8.03 per week. If there's any problem with this please write to us'. You write back and say 'these are my overheads per week, please could you reduce my payment to £5 a week' and they write back and say 'we accept your payment of £5 a week'. A week or two ago I got a phone call from a lady saying we're going to send you a letter in April/the beginning of May putting up your repayments to £8 a week, all you have to do is send another letter back saying your overheads are so much plus inflation and we will reduce it back to £5 a week. They're playing the game.'*

(Male, 31, South Asian, couple with children, Crisis Loan user)

Others had enlisted the help of others in their quest to get payments reduced, such as friends, family or welfare rights officers.

Not everyone who tried to reduce repayments was successful. This appeared to be connected to the timing of their complaint. Unsuccessful challenges generally occurred at the time of receiving the initial offer, whereas those who were successful requested a review once the repayments had started. This highlights how some people were unaware of the regulations surrounding the timing of reviews, which state that reviews can only be requested once repayment is underway and not at the time of the initial offer.

However, in the main, repayment rates that were unacceptable or more importantly unmanageable were rarely challenged. There were a number of reasons for this. First, there was in some quarters a complete lack of awareness that repayment rates could be changed. This lack of awareness was due to lack of information or, alternatively, to misinterpretation of the information available. For example, some had interpreted the wording in offer letters, and comments made by Jobcentre Plus staff, in such a way that made them conclude that rate reviews were not possible.

Second, repayment rates sometimes went unchallenged because it was feared that a request for a review would have negative repercussions. This was voiced in two ways. Some feared that disputing a repayment rate would lead to the loan offer being reduced or withdrawn altogether.

'And we didn't really wanna query it, as I said, because we really had set our hearts on [getting] that loan, [...] so we didn't wanna start messing about with 'oh well, we can't afford to pay this much, can we pay...' because they might say, 'No, you can't have the loan', or, 'You can only borrow this, that, or the other.'

(Female, 43, black-Caribbean, couple with children, multiple Social Fund loan user)

Alternatively, it was feared that a request for review would signal to the DWP a lack of willingness or ability to repay loans and that this would be taken into account in adjudicating any future loans, and result in reduced allocations.

'Oh you can go in and drop it if you find it hard, but I think if you did, that would stop you, you know, later on. I don't think they'd give you [a loan] for the [same] amount [next time]. [...] It happened to a friend of mine. [...] You know like, she's applied for, say, £200 like. She applied for £200 before, they wouldn't give her the £200 because she had difficult paying it back the last time.'

(Female, 65, white, single pensioner, multiple Social Fund loan and TPD user)

6.6 Impact on household finances

Repaying loans and making payments to third parties were seen to have a number of distinct advantages for family finances:

- *It reduced the level of the arrears or loan:*
 - The fact that the loan or arrears were being paid off, meant that the level of debt was being reduced.
- *It carried no risk of defaulting or penalty:*
 - People were protected from any penalties associated with non-payment, such as financial charges which would have increased the size of the debt, court appearances or the seizure of goods by bailiffs,

[Respondent] *'[The deduction] definitely stops me from getting into more [debt] because I wouldn't have [paid it myself, so], I'd have been in more debt with them then, wouldn't I, so it's a lot better in that respect.'*

[Interviewer] *'What would have happened if you [hadn't] able to pay back that money you owed the council through your ... ?'*

[Respondent] *'They'd have taken me to court and billed me extra charges, and I'd probably have had a breakdown by now.'*

(Female, 36, white, lone parent, multiple Social Fund loan and TPD user)

- *It reduced the overall burden of the debt:*
 - A system of repayments was more manageable than having to make a lump sum payment.

Everyone who had money deducted from their benefit or payment benefited in these three ways, although such advantages appeared more noticeable to, and were mentioned more regularly, by those who had more manageable repayments.

When the combination of repayment rates and existing debt was considered unmanageable, this exacerbated the effects of living on a low income and thus meant that people were even more reliant on the range of coping strategies outlined in Chapter 2, such as juggling household expenditure and cutting back on spending. However, not managing also led to a range of other financial impacts, particularly where repayment levels were high, there was significant debt outstanding, and skill at financial management was largely absent. These effects included:

- *Accrual of arrears:*
 - Having difficulty in paying back a Social Fund loan sometimes meant that household bills were not paid and that arrears were accrued. In one example, a couple had stopped paying both their gas and electricity bills in order to be able to put food on the table, and had built up arrears of £92 and £150 respectively, all because the repayment rate (18%) for their Crisis Loan was too much for them. This was not an isolated case, as other households also found themselves with arrears as a result of the deductions made.
- *Increased borrowing:*
 - Arrears were not the only form of debt that came about as a result of less manageable financial circumstance. An alternative means of filling the hole left by the deducted repayment was to borrow from elsewhere, for example from private loan companies, catalogue companies or family and friends (and others from the range of sources already outlined in Chapter 2).
- *Further depletion of financial security*
 - Another impact of less manageable financial circumstances was that there was rarely any money left for savings or to pay for any emergencies. In one case, a lone parent was worried that she would not be able to find the money to go and visit her sick relatives if their conditions deteriorated suddenly.

6.7 Impact on material circumstances

Where the combination of repayment rates and existing debt was considered unmanageable, the impact on a household's material circumstances were generally negative. There was a definite priority in what was affected in times of less manageable financial circumstances.

Luxuries were the first things that people tended to do without. Initially luxuries for adults, such a visit to the hairdresser for women or a trip to the pub for men, were cut. Whilst some people found it more acceptable to cut back on such treats, for others it was a sign that they had serious financial problems that had implications for how they lived their lives:

'It stops you from doing everything, it literally stops you from going forward with almost everything. I mean even if you've got a local course [to attend, the] bus fares and things like that are luxuries for us.'

(Female, 43, black-Caribbean, couple with children, multiple Social Fund loan user)

Treats for children, including sweets, ice cream, school trips, or a visit to the cinema were the next items to be affected. Not being able to afford small luxuries for children was particularly upsetting for people. In the following extract, a woman compares her situation now, with how it was a year ago when she was repaying a Crisis Loan:

'It's getting better, it's getting better because even though I'm not working at the moment I'm not suffering. [...] I'm not suffering like last year. Last year this time I was suffering, I couldn't buy ice cream for my son but this year seems to be bright for me.'

(Female, 51, white, lone parent, Crisis Loan user)

If further cuts were to be made, adults tended to stop or curtail buying clothes for themselves, and children had to make do with cheaper brands or second hand clothes. One couple talked about how their £21 repayment not only meant their child missed out on key articles of clothing like a new pair of shoes but that their inability to afford smart clothes for themselves was potentially hindering their chances of finding paid work:

'[The extra money] would make a lot of difference really. It might be more easier getting a job, because you could tidy yourself up more. You can get to more places if you have extra cash for bus fares, transport to go and look for jobs.'

(Female, 24, white, couple with children, Budgeting Loan user)

Food shopping was often talked about as an area where people had tried to save money in combination with the areas already outlined. For example, some indicated that they had changed where they shopped for somewhere cheaper:

'I [now] go to Asda, I find it a lot cheaper at Asda than what I would at Co-op, so I go to Asda, obvious. I go for cheap brands, because it's as good as any other food I think. So as long as they eat it and they like it I buy it. If I find out they don't like it, then I'd stop buying it. I'd just say right we're not buying that no more now, we'll get that other. If they're going to eat it, then I will buy it and that's the way I see it.'

(Female, 42, white, couple with children, Budgeting Loan user)

Others placed more emphasis on how they had changed *what* they bought, substituting more expensive items like meat, with cheaper alternatives like baked beans. In some households pre-prepared foods were replaced by home cooked meals and home baked bread. Cut-backs on food ultimately had implications for people's health and lifestyle: fresh fruit and vegetables were restricted, so too were specialist foods needed for weight loss or diabetes:

'I just cut down on things. There is certain bread I like and I had to go for the cheap stuff, which I don't like. I wasn't having as much fruit as I should have had [for my diabetes], and I was having no treats, I cut right down on my smoking.'

(Male, 85, white, single pensioner, multiple Social Fund loan user)

6.8 Impact on families

The evidence presented in the previous sections of this chapter has highlighted that all members of the family were potentially affected when repayment rates, in combination with other circumstances, made it difficult to make ends meet. Whilst adults did their best to lessen the impact on children by making their own sacrifices before having to cut back on expenditure specifically related to children's needs, children were undoubtedly affected indirectly through more general cut-backs in food. It was clear that parents put their children first and were concerned not just about their needs for the present but also their welfare in the future:

'I was saving for the children, for the future. If I could save like £10, £5 a week that makes me happy. But if I save zero that makes me upset. When my children need something I'm there for them. But if I don't have no money, no savings, I'm not there for them.'

(Male, 27, black-African, couple with children, multiple Social Fund loan user)

In more extreme cases, children missed out in a more direct way where their parents were unable to buy them the things they needed.

'I think they need to make less deductions especially when [...] they know that you've got kids. This is about kids. Kids want toys, they want everything, I can barely give my kids the necessary right now.'

(Male, 41, black-African, disabled couple with children, multiple Social Fund loan user)

There are, then, a range of perspectives on direct deductions, and where they combine less favourably with other financial commitments, they can lead to a range of ill effects. However, it is also clear that deductions from benefit can and do have a positive effect on households where they fit well with what a family can afford. The final chapter draws together some of the main findings of the research and pinpoints some implications for policy in this area.

7 Conclusion

This chapter aims to summarise the main findings of the study and to draw out the key implications for the delivery of Social Fund loans and Third Party Deductions to benefit and pension recipients.

7.1 The challenge of living on a low income

This study explored the use of Social Fund loans and deductions from benefit to pay for arrears and other outstanding costs amongst a group of benefit and pension recipients. The preponderance of low income and its consequences is a striking characteristic of the sample interviewed, even though participants were purposively selected because of their use of credit or their accumulation of arrears. Poverty and financial struggle were commonplace. While such difficulty was observed in almost every household, the circumstances of families with children appeared particularly poignant. The costs of children were typically said to be high. Moreover, children's desires were often described as uncompromising, and this placed further financial and psychological pressure on many of the parents included in the study.

The ability to save was rare or non-existent amongst those interviewed. Instead debt, sometimes at a high level, was typical. It would be wrong to portray all of those on low incomes as relying heavily on debt. It is clear from this study that some are infrequent or occasional borrowers, and have only a passing reliance on credit facilities. They, in the main, have sustained an aversion to or distrust of debt. The use of credit and debt, however, is a significant coping mechanism for many on low incomes, and there is evidence in this study that such behaviour can range from occasional to persistent. Some appear to manage the repayment of debt in a way that is acceptable to them, and indeed seem resigned to tolerating the ongoing presence of debt within their lives. However, at its most pernicious, debt repayment can erode what little financial resources a family has, and have devastating impacts on material circumstances. Moreover, the most dependent on debt appear to be quite apathetic about it and are in danger of accumulating more.

Good financial management is clearly key to surviving on a low income. We know this from other studies (see, for example: Ritchie 1990; Whyley *et al*, 1997; Elam *et*

a/ 1999; Snape et al 1999; ESRC, 2002; Farrell & O'Connor, 2003) and this investigation provides yet further supporting evidence. There was evidence of the extremes of good and bad financial skill, and those who were better at budgeting – managing household resources, expenditure and levels of debt - were undoubtedly more effective at making ends meet. The tools for doing this are often limited. Not everyone had access to, or used, financial services. Instead they relied on a range of other ways to make ends meet – juggling bills and other financial commitments, cutting back on household expenditure or doing without non-essential items, selling household items that were deemed to be dispensable and utilising the support of family and community networks. While these strategies demonstrate a certain resourcefulness amongst some, they are no substitute for better skills at managing money and debt. Clearly, increasing this skill amongst those on low income is a challenge, but strategies that aim to do this are important in combating financial vulnerability.

7.2 The role of Budgeting Loans, Crisis Loans and Third Party Deductions

It is within this context that the types of support that the Government offers to low-income families through the Social Fund and TPDs must operate. There is much evidence to support the view that Budgeting Loans, Crisis Loans and TPDs do offer vital support to the most financially vulnerable. Budgeting Loans offer a mechanism for benefit or pension recipients to spread the costs of large household expenditure over a longer period of time. Crisis Loans can and do help those whose need for financial support is more immediate or urgent. TPDs too are, it would appear, an effective way of helping low-income families to overcome financial difficulty arising from arrears and other outstanding costs.

That said, the effectiveness of these support mechanisms is tempered by the levels of awareness and understanding that benefit and pension recipients have of them. Awareness of these facilities and how they can help survival on a low income is not universal. Social Fund loans, and their purpose, appear to be well known; however, there was scant knowledge of TPDs, particularly amongst those who had not used them. There were families with arrears interviewed who could have benefited from TPDs but they had never heard of them. Increasing customer awareness of TPDs should therefore be an important future priority.

There is some understanding of how the Social Fund operates, particularly in relation to Budgeting Loans. How Crisis Loans and TPDs work, by contrast, seemed less obvious to the people interviewed. Where understanding is high it can mean that individuals have better knowledge about their rights and entitlement and have a better chance of taking an active and empowered role in their financial management. There is clear evidence to suggest that increased knowledge and understanding can lead to more informed application strategies, particularly for Budgeting Loans. Myth, misunderstanding and hearsay about the allocation of Budgeting Loans only serve to make application difficult, and fraught with worry. Worse still, lack of

understanding can lead some people to lie about existing debt in order to ensure that their application will be approved. When repayment rates are calculated on a more optimistic description of household finances, it can mean that individuals are paying back loans at a rate that is incompatible with their other financial commitments. When this is combined with lack of understanding about when and how to obtain a review of a repayment rate, it can mean that Social Fund loans have the opposite effect to that intended, that is, they complicate financial management rather than improve it.

It may seem that understanding of how a service works is less important than awareness. However, it is clear that understanding of the Social Fund and TPDs does have an impact on how well people can interrogate the various options available to them. Without it they have less knowledge of the scope of their rights and entitlement from the various services. This can only serve to exacerbate vulnerability and to create a group of people who appear more passive or dependent on the state or officialdom to interpret their needs and propose the best solution. Where tailored advice can be given, this is of course to be supported, however it is no substitute for simple and accessible information.

7.3 Deductions from benefits and their effect

There was general acceptance of the principle of deducting payments for Social Fund loans and payments to third parties direct from benefit, with some exceptions. There were concerns about the effect this can have on an individual's independence and their self determination, however, these concerns were for the most part balanced or indeed outweighed by the range of benefits direct deductions are seen to have. It was seen to discipline households into payment of debts and arrears. TPDs in particular were seen to protect families from the penalties of non-payment. Others emphasised what they felt were positive effects on financial management or budgeting, or applauded the convenience of the service as a way of paying for arrears. Deductions for loans and TPDs were seen to have very positive psychological benefits by those who experienced them, giving peace of mind that debts or arrears are covered. The value of this to people who are perhaps accustomed to worrying about money should not be underestimated.

Two inter-related issues are important in the exploration of repayment rates and their effects – whether they are considered acceptable and whether they are seen to be manageable. It is difficult to come to any firm conclusion about what denotes an acceptable rate of repayment, because views are so mediated by individual circumstance, and whether the rate was manageable in the context of their whole financial picture. Acceptance of repayment rates was also influenced by the level of understanding people had about how it was set and the degree of control or involvement that they felt they had in setting it. The degree of financial vulnerability was also a factor – the more vulnerable were often grateful for any help and consequently more accepting of higher levels of repayment, even where they produced difficulty. Again this underscores the importance of raising understanding amongst users about their rights and entitlements in this regard.

Perhaps the more important consideration is whether repayment rates as they are currently calculated are manageable. While it is difficult to come up with any firm set of parameters, total repayment rates – for loans and/or TPDs – in excess of 15% were generally less manageable. Notwithstanding this, it was the fit of the repayment rate with the other financial circumstances of the household that had more of an influence, particularly the level of other debt. Where repayment rates are not calculated on a realistic picture of debt and other financial commitments it can, as mentioned earlier, lead to financial difficulty for the household. Better financial skill can mitigate some of this difficulty, but only to a certain extent. It ultimately means that direct deductions have a negative effect on the families' material and financial circumstances.

This is a complex and difficult situation for the Government to address. It is hard – and outside the scope of this research – to pinpoint how veracity can be enshrined in the application procedures any more than it is. But perhaps there are improvements that could be made in the publicity of Social Fund loans – that could make it clearer how repayment rates are fixed, and that underscores the importance of honesty about existing commitments in finding the most appropriate one for each household. This is important because where the repayment rate is appropriate to the circumstances of the household; direct deductions can have a broad range of positive effects on the household. They can help to lessen the negative impacts of existing debt, and amongst some, appear to help forestall the accumulation of further debt. They are also seen to enforce better household budgeting and there is evidence to suggest that some households are better at prioritising. This can and does have positive repercussions for the material circumstances of families and children living on a low income.

Appendix A

Fieldwork documents

- Topic guide
- Initial letter from DWP
- Invitation letter left by recruiter



P6105 - A study about Government benefits

Effects of deducting Social Fund loan repayment and payments to third parties at source from benefits

Note:

Attached is a topic guide that we will use in the interviews. As the study is exploratory we wish to encourage participants to discuss their views, experiences and practices in an open way without foreclosing issues which may be of importance to the study. Therefore, unlike a survey questionnaire or semi-structured interview, the questioning will be responsive to the respondent's own experiences, attitudes and situation. Consequently, the attached guide does not contain pre-set questions. Rather, it lists the key themes and sub-themes to be explored with each respondent. It does not show any follow-up questions like 'why', 'when', 'how' etc. as it is assumed that respondent's contributions will be fully explored throughout in order to understand how and why views, behaviours and experiences have arisen. The order in which issues are addressed and the amount of time spent on different themes will vary between interviews.

In order to aid recall in the interviews we have also designed a pro-forma, which will be used alongside the topic guide. (This is a separate document). On this short pro-forma researchers can note specific levels of income or expenditure. This is very brief and used in an informal way in the interview so that it does not affect the naturalistic form of the interview.

The pro-forma acts solely as an aide memoire, both to ensure all types of income and spending are covered fully, and so that researchers can easily recall details they want to explore further. This document will not form part of the body of data that will be analysed. Any information will be captured on tape and subsequently transcribed.

Key objectives are to:

- Understand the financial circumstances of those households in receipt of Social Fund loans and Third Party Deductions.
- Describe general attitudes to credit and debt amongst those who have deductions made direct from their benefit.
- Explore client experience of having deductions direct from benefits and of the processes by which these are arranged.
- Examine the range of views and attitudes that exist about direct deductions from benefit, in particular about the level of repayment and the appropriateness of this.
- Explore client knowledge of their rights over setting rates for repayment, as well as their awareness and understanding of how repayments are organised and set, and the procedures for revising these.
- Identify and explain the various impacts of direct deductions at source from benefit.

1 Introduction

Introduce self, study, commissioned by DWP, National Centre.

Explain that we are interested in how families/people on benefit make ends meet especially when they have deductions made from the benefit for Social Fund repayments and/or for paying arrears for things like gas, electricity or council tax. We would like to explore their experiences of having these deductions made. This is a chance for them to express their views.

Explain about the confidentiality of the interview. Explain tape recording and length of interview.

Background and personal circumstances

Check against any background information we have from screening process:

- Age;
- Household details:
 - Who living with and ages;
 - Make up of household / nature of the relationships;
 - Housing tenure;
 - Current situation (and partner if relevant);
 - On benefits / pensioner / working (brief details e.g. type / hours / when started etc);
 - Any other activities / roles (e.g. voluntary work, studying);
 - Length of time in current situation;
 - Ever worked / last time worked (brief details).

2 Income

Aim: to understand the nature of respondent's current income.

Explain that we want to find out about how they make ends meet and to look briefly at the money they have coming in and going out (mention proforma).

- Gain details of all current sources and levels of income (*log on income proforma as aide memoire for interview*);
- Record any deductions mentioned at this stage:
 - Benefits (which types: JSA, IS, Child Benefit etc);
 - Pensions / minimum income guarantee/pension credit;
 - If working: earnings from paid work;

- Other income;
- Maintenance (ex-partner/spouse);
- Tax credits;
- Odd jobs;
- Informal help (loans / gifts from friends / relatives);
- Selling items;
- Other;
- For each:
 - Amount;
 - Give details of receipt of/access to current income;
 - How paid/received (postal/direct into account);
 - Regularity of payments;
 - Method of storing income;
 - Do they have a bank account and how long had one for;
 - Explore type of account and services available / used (e.g. direct debits);
 - Benefits / limitations of account services;
 - How does it work otherwise;
 - Any changes over time;
 - Appropriateness of methods;
 - Convenience;
 - Any changes over time.

3 Current spending

Aim: to understand current spending.

Explain that we want to look briefly at what they spend their money on and how they budget.

- Briefly explore how money is managed:
 - Who is involved in spending decisions;
 - Broad influences and priorities.

- Gain details of current spending – rough estimates for:
 - Housing costs;
 - Utility bills;
 - Food;
 - Clothing;
 - Other material possessions;
 - Social and leisure spending;
 - Other spending;
 - Methods/facilities for payment of expenditure (cash, cards, key cards etc);
 - Appropriateness.

4 Making ends meet and use of credit and debt (key section)

Aim: to understand how money is managed and how credit and debt is used to make ends meet.

Referring to pro-forma.

- Given income and spending, how easy is it to make ends meet:
 - *If not highlighted spontaneously, probe any shortfall/savings:*
 - How is any shortfall managed;
 - Explore role of credit and debt;
 - Understand general attitudes towards credit and debt;
 - How do attitudes compare to actual usage;
 - Explore views on usage of debt;
- Gain details of the nature and scale of any debts/loans:
 - Formal loans:
 - Bank loans;
 - Overdraft;
 - Credit/store cards;
 - Catalogues;
 - HP;
 - Social fund *(to be explored in more detail later, but check for understanding of difference between different elements of the Social Fund: Crisis loans, Budgeting loans etc);*

- Credit unions;
- Work advances;
- Student loans;
- Informal loans:
 - Private companies / money lenders;
 - ‘Tallyman’/‘tick’;
 - Pawnbrokers;
 - Cheque cashing companies;
 - Family/friends;
- Arrears
 - Check for any spontaneous reference to TPDs at this point;*
 - Rent;
 - Mortgage interest;
 - Council Tax / Community Charge;
 - Care home fees;
 - Gas;
 - Electricity;
 - Water charges;
 - Sewerage charges;
 - Court fines;
 - Benefit overpayments;
 - Other;
- For each (*excluding TPDs and Social Fund, as these are covered later*):
 - Amount;
 - When taken out;
 - Reasons behind – purpose.

5 Social Fund Loan (key section)

Aim: to understand views on and experiences of Social Fund loan and repayments.

- *Generally:*
 - Understanding of Social Fund loan;
 - How they heard about Social Fund:
 - History of usage;
 - Which types used (Budgeting Loan, Crisis Loan etc)
 - *If not already clear, check whether they distinguish between Crisis and Budgeting Loans and other elements of Social Fund such as non-repayable grants like Community Care Grants*
 - Attitude compared to other types of credit/debt discussed:
 - When is Social Fund used over other types
 - Any hierarchy/preferences
 - What types of credit/debt used for what purposes
- For each Social Fund loan:
 - Why loan taken out;
 - Amount borrowed;
 - Length of time each held;
 - Understand whether loans are repaid and then renewed, or topped up;
 - Explore times when loans are taken out, e.g. moving house, Christmas etc;
 - Explore set-up process:
 - Explore understanding of what was available/what loans are to be used for;
 - How did they hear about the Social Fund (friends, JC+ etc);
 - Any advice sought (JC+, CAB etc);
 - Expectations of the facility;

- Repayment rate:
 - Views about current level of repayment;
 - Understanding of how repayment rates set (and awareness/knowledge of whether/how these can be revised);
 - Any changes;
 - Initiated by whom;
 - Total amount of repayments (and proportion of income spent);
 - How long have repayments been made for;
 - How long is left before they finish.

6 Third Party Deductions (key section)

Aim: to understand general thoughts on TPDs and repayments.

During discussion note how respondents refer to TPDs

- *(If not already covered) Check whether they have anything deducted from their benefits, generally and relating to TPDs:*
 - Housing costs: rent/mortgage interest/care home fees;
 - Council Tax/Community Charge;
 - Utilities (gas/electricity/water/sewerage charges);
 - Court fines;
 - Benefit overpayments;
 - Other;
- *For each TPD:*
 - How TPD came about;
 - Who initiated it;
 - Where imposed, how do people feel about this;
 - How arranged;
 - Explore understanding of what TPDs are to be used for;
 - How did they hear about the TPD;
 - Any advice sought (JC+, CAB etc);
 - Expectations of the facility;

- Repayment rate:
 - Views about current level of repayment;
 - Understanding of how repayment rates set (and awareness/knowledge of whether/how these can be revised);
 - Any changes;
 - Initiated by whom;
 - Total amount of repayments (and proportion of income spent);
 - How long have repayments been made for;
 - How long is left before they finish;

- Explore whether any TPDs have continued once debt is paid:
 - Reactions to this;
 - Benefits of this.

7 Impact of payment and deductions (key section)

Aim: to find out about the wider impact of repayment.

Explore separately for Social Fund and third party deductions or, if it makes sense explore them together.

- General feelings towards repayments deducted at source:
 - Positive (e.g. security/comfort);
 - Negative: (e.g. being controlled; denied choice);

Explore the impacts that direct deductions have had on their lives.

Spontaneous comments:

- What have been the most noticeable impacts;

Probe:

- Impacts on household budgeting and spending:
 - Impacts on bill/debt payment;
 - Impacts on spending priorities;
- Impacts on making ends meet:
 - How have direct deductions made this easier or worse;

- Impacts on material wellbeing and living standards:
 - Food shopping;
 - Housing;
 - Luxuries;
 - Impacts on adults;
 - Impacts on children;
 - Impacts on debt currently held:
 - Reduction or increase in levels;
 - Key impacts, e.g. prevented eviction/bailiffs/utility supply being cut-off;
- Impact on further use of credit / debt facilities
 - How have attitudes towards debt changed;
 - How has use of debt changed;
- Other impacts of repayments or deductions:
 - Explore impacts on attitudes to remaining on benefit or moving into work.

8 Reflections

Aim: end the interview on a more positive note and to show that we value their participation and opinions.

- Overall feelings about their financial situation:
 - Practicality of current arrangements;
- What changes would they like to see:
 - For themselves;
 - For others in similar situations;
 - What would improve their current debt situation or prevent further debt occurring;
- Messages back to DWP.

April 2004

Important research about Government Benefits

We are writing to you because our records show that you have been awarded a Social Fund loan or have had debts to third parties (e.g. for gas, electricity and Council Tax arrears) deducted from your benefit, at some time in the last year. These are services that the Government offers to people in receipt of many different kinds of benefit to help them avoid debt and to gain better control over their finances.

We are keen to gather feedback about these services – in particular – we want to know whether they help families to make ends meet. To do this, we have asked *The National Centre for Social Research* (NatCen), an independent research institute, to talk with people like yourself about your experience of the Social Fund and/or having arrears for things like gas, electricity or council tax deducted from your benefit.

We are inviting a small number of people in your area to take part in the research. A representative of NatCen may be in touch in the next few weeks to find out if you would be interested in taking part. They would then arrange for a researcher to come and visit you in your home, or at a more convenient location chosen by you, to hear about your experiences. The discussion normally lasts about an hour and a half. Everyone who takes part is given £25 as a thank you for the time involved. **Everything you say will be treated in strict confidence** in accordance with the Data Protection Act.

NatCen may not need to make contact with everyone we write to, so if they do not, thank you for your time so far. However, we hope that if they do get in touch that you will decide to take part. If you do not wish to be contacted, please get in touch with me on _____ before _____, giving your name and the reference number (in bold) at the top of this letter.

Your involvement is completely voluntary and will not affect any benefit you receive, or any dealings you have with any government agency or department. Thank you for your help with this important study.

Yours sincerely,



Government Benefits Study

Thank you for agreeing to take part in this study about Government benefits. I can confirm that the interview will take place as follows:

Date:.....

Time:.....

Place:.....

Name of interviewer(s):.....

The interview will last between about 1½ hours, and you will be given £25 as a thank you for your time and help.

The *National Centre for Social Research* has been asked to carry out this research on behalf of the Department of Work and Pensions. The *National Centre* is a fully independent social research organisation and all work we carry out is undertaken in the strictest confidence. No information that could identify you will be passed to anyone else.

We hope that you will enjoy taking part in the interview. If you require any further information, please contact me on the telephone number or email address below or by writing to me at the above address.

Yours sincerely

Appendix B

Social Fund loan application rules

Who is eligible for a Budgeting Loan?

In order to receive an interest free Budgeting Loan, the applicant:

- or their partner must not be disqualified from getting Jobseeker's Allowance under section 14 of the Jobseeker's Act (trade disputes);
- must be receiving Income Support, income-based Jobseeker's Allowance, Pension Credit or payment on account of one of these benefits;
- must, in addition, have been in receipt of Income Support, income-based Jobseeker's Allowance or Pension Credit for a minimum of twenty-six weeks, or been the partner of someone receiving these benefits, or a combination of them for a minimum of 26 weeks. If, at any time during the 26 week period, the person or their partner stopped receiving these benefits, any gaps of up to 28 days are ignored.

What needs are covered by a Budgeting Loan?

Applications for Budgeting Loans can be made where a person needs assistance with:

- Furniture or household items.
- Clothing and footwear.
- Rent in advance or removal expenses to secure new accommodation.
- Home improvements, maintenance or security.
- Travelling expenses.
- Seeking or starting work (including childcare costs).

- Repaying hire purchase (HP) or other debts that have been taken out to pay for any of the above.

Further conditions:

- Budgeting Loans cannot be used for any other reason than the general categories above.
- A person cannot get a Budgeting Loan for more than £1,000 and the total owed to the Social Fund must not be more than £1,000.
- The outcome of a Budgeting Loan application depends on personal circumstances. These are how long a person has been on benefit and the number of people in their household.
- Whether a Budgeting Loan application is accepted also depends on how much a person already owes the Social Fund and how much money is available for Budgeting Loans.
- Budgeting Loans are not given for less than £30.
- Savings in excess of £500 will usually affect how much a person can receive (£1,000 where a person or their partner is 60 or over).
- Before a loan is provided a person must agree how the loan will be paid back. Repayments are usually taken off Income Support, income-based Jobseeker's Allowance or Pension Credit.

Who is eligible for a Crisis Loan?

In order to receive an interest free Crisis Loan, the applicant:

- does not have to be in receipt of any benefits;
- must be unable to get help in any other way;
- must be aged 16 or over; and
- must be unable to pay for:
 - basic living expenses and where this amounts to a serious risk to the health and safety of a person and their family;
 - something else and where this amounts to a serious risk to the health and safety of a person and their family.

What needs are covered by a Crisis Loan?

Applications for a Crisis Loans can be made for help in an emergency or disaster.

Further conditions:

- Whether a person receives a Crisis Loan depends on personal circumstances.
- Any savings held will usually affect how much a person receives.
- Where a person has already borrowed from the Social Fund and owes money, this will affect how much a person will receive.
- Before a loan is provided, a person must agree how the loan will be paid back. Repayments are usually taken off Income Support, income-based Jobseeker's Allowance or Pension Credit.

Source: DWP Leaflets SB16, April 2004, GL18, October 2003.

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