

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

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This summary is based on findings from 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).

### Key findings

- Understanding of Social Fund loans varied among users, from very basic to more sophisticated conceptions.
- Understanding of how third party deductions (TPDs) operated was consistently low across all users. Consequently there were calls for improved administrative procedures in this area.
- Non-users of TPDs in the sample, with arrears, could have benefited from the facility, but awareness was low among this group.
- Budgeting Loans were seen in a broadly positive light because the loans are readily available, there is no interest to pay, they are more discreet than other loans and because the repayments are deducted at source. However, compared to more expensive private loans, Budgeting Loans were said to take longer to arrange, and seen as less flexible in terms of amounts available and rates of repayment.
- Future use of Crisis Loans was less likely among existing users due to low offers and an apparently slow application process.
- The direct deduction facility was on the whole well received, especially in the case of TPDs, as repayment rates tended to be lower than those experienced by users of both Social Fund loans and TPDs. Generally respondents were unaware that they could ask to review the repayment rate they had been set.
- Whilst direct deductions were a convenient means of ensuring that arrears and bills were paid and avoiding the penalties of non-payment, they could have a negative impact on families' financial and material wellbeing where they represented a significant proportion of household income (over 20%).

### Summary of research

#### Background

This study used qualitative research 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 aim of the study was to understand more about the use of Social Fund loans (Budgeting Loans and Crisis Loans) which are designed to cover a variety of lump-sum needs, and the Third Party Deductions (TPD) scheme which allows for the repayment of arrears to be deducted directly from benefit. The research sought specifically to examine client understanding and experience of direct deductions and to explore the impact they had on households.

A total of 45 interviews were conducted, in the months of April and May 2004, in five local authorities in England and Scotland<sup>1</sup>. These were chosen because of their high levels of deprivation as 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 to include a range of claimant types (lone parents, unemployed couples with children, disabled people and pensioners), family size, type of direct deduction (Social Fund loan and/or TPD), and length of time on benefit.

### *Financial and material circumstances*

Whilst financial struggle was a common characteristic of the sample, it seemed more poignant amongst those with dependent children, regardless of the number of children or their age.

Budgeting was also a common concern. Whilst all attempted to budget in some form, particularly for food, not everyone was proficient at it. Common budgeting strategies included juggling, cutting back on non-essentials for both adults and children, selling personal items, and relying on financial and material support from friends, family and neighbours. Informal support was particularly important for those with dependent children.

Saving was a rare occurrence among those interviewed. Borrowing was a much more common mechanism of financial management. 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. 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, and / or a TPD set up to

repay a range of arrears from rent, gas, water, electricity and Council Tax to benefit overpayment. In addition, almost three-quarters of the sample had loans outstanding, of between £100 and £1000, from other sources encompassing banks, credit unions, private loan companies, credit and store cards, hire purchase companies and catalogues. Similarly, over three-quarters of the sample had current or recent arrears. Levels of arrears varied from under £100 up to £1000.

### *Understanding and experience of the discretionary Social Fund*

Understanding of how Budgeting Loans and Crisis Loans operated varied according to the extent of people's experience of using the loans as well as access to relevant sources of information. Levels of understanding of Social Fund loans ranged from those who knew little more than the fact that the loans were interest free to those who had a more sophisticated understanding of how loan offers were made. In general, there was much less known about Crisis Loans compared to Budgeting Loans.

Experience of the Budgeting Loan application process was varied in terms of how long it took, which method was used (face-to-face or telephone and post), what strategy was adopted to maximise the offer (for example applying for more money than was needed), and how offers were received (i.e. the combination of offer and repayment rate). Whilst there was a more standard approach to Crisis Loan applications, the process was considered slow by those with experience of it.

The advantages of using a Social Fund loan over other forms of borrowing available to those on low incomes were perceived to be the lack of interest payable, the direct deduction of repayments at source, the fact that they were available to anyone in receipt of a state pension or appropriate benefits, and the perception that they were more discreet than other loans. The disadvantages, especially when compared to private loans, were the perceived high rates of repayment, the inconvenience of the application

<sup>1</sup> London Borough of Haringey, Manchester, Bolsover, South Tyneside and Glasgow

process, and the lack of flexibility in terms of loan amounts and repayment terms.

Budgeting Loans were relied upon not only for emergencies but also as a regular boost to household income, in order to cover everyday needs such as the cost of clothing, food, household goods, home improvements, special occasions like Christmas, and to help service debts and bills. 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 emergencies.

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 likely to continue to use the service than Crisis Loan users were. Some Crisis Loan users said they could not see the advantage in borrowing again when the offers were so low. Instead they said they would prefer to borrow from friends and family, take out a private loan, or do without.

### *Understanding and experience of Third Party Deductions*

Awareness of the concept of Third Party Deductions was low among non-users (part of the sample only had experience of the Social Fund). Among users, there was very little awareness of the term 'Third Party Deduction' and understanding of how TPDs operated was often vague, especially when compared to the sometimes more developed understanding respondents had of Budgeting Loans. Indeed, much of the information concerning how TPDs operated, in terms of eligibility, set-up, repayment rate decisions and revisions and the specifics of how many different TPDs could operate at the same time, were consistently misunderstood or misinterpreted, even by the more 'informed user'. User understanding appeared to be largely governed by experience, rather than by any written or oral sources of information or advice.

Respondents were often unclear about the terms of their own TPDs, such as how their TPD was set up and how much was outstanding.

Consequently, there were calls for better administrative procedures in this regard.

The report also highlighted that there were families in the sample with arrears who were unaware of TPDs but would have undoubtedly benefited from the facility.

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 office.

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 users' perceptions of fairness, how effectively it was explained and implemented, and whether an individual's financial independence was seen to be compromised by the facility.

### *Direct deductions – views and impacts*

There was general acceptance of the principle of direct deductions. It was generally 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.

There was a general perception that repayment rates were too high among users of both Social Fund loans and TPDs, but less so among people with TPDs only. Such perceptions were largely based on the proportion of household income deductions represented. Rates of more than 20% of household income were considered too high. However, the acceptability of rates was also influenced by a number of other factors 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 due to a lack of awareness that this could be requested. Some also feared 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 could contribute 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. All of which undoubtedly had an impact on families' financial and material wellbeing.

The full report of these research findings is published for the Department for Work and Pensions by Corporate Document Services (ISBN 1 84123 798 1. Research Report 240. March 2005).

It is available from Paul Noakes at the address below.

You can also download this report free from: [www.dwp.gov.uk/asd/](http://www.dwp.gov.uk/asd/)

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