



“Social Fund reform: debt, credit and low-income households”

Department of Work and Pensions

Response from Barnardo's, June 2010

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Introductory comments

1. Barnardo's works directly with more than 100,000 children, young people and their families in almost 400 services across the UK. These services are located in some of the most disadvantaged neighbourhoods where child poverty and social exclusion are common features. We work with children affected by today's most urgent issues: poverty, homelessness, disability and abuse. Our projects work with children aged 0 to 18 (or 24 in the case of young care leavers).
2. This experience means we often come into contact with many families where no one is in paid employment, who often struggle to access mainstream financial services. In 2009 Barnardo's published *Counting on Credit*¹ which looked in detail at the financial circumstances of a number of families living in poverty. Given the lack of access to mainstream credit, the social fund played an important role in the lives of many families interviewed as part of this research, and the comments in this response draws on what these families told us about their needs from the social fund and how it could best be reformed. The majority of the families who took part in the research had taken a Social Fund loan in the past and we also found that some families rely on the fund so much that they take a new loan out as soon as they have paid off the last one.
3. This response does not answer each consultation question. Based on the experiences of the families that use Barnardo's services, we know there are two important requirements that could be met by the Social Fund. One is for quick access to small amounts of credit – this is often the sort of need that home credit or hire purchase arrangements are used to fill, and it is these smaller amounts that attract the highest interest rates in the alternative credit market. Second, the Social Fund could do more to meet the needs of low income families by linking various sources of information and advice to families when they apply for a larger loan. For example, those applying for a

¹ Barnardo's (2009) *Counting on Credit* available on line at http://www.barnardos.org.uk/news_and_events/media_centre/press_releases.htm?ref=48685

larger Social Fund loan may be more likely to benefit from debt advice, financial capability training or support. We believe these are best achieved by reforming the way that the loan scheme operates and we have therefore concentrated our response to questions raised in chapter three of the consultation document which – “reforming the loan scheme”.

Chapter Three: Reforming the loan scheme

What types of support and requirements would be most useful for customers?

4. The individuals we work with live diverse lives, and there is no single reason they may decide to make an application to the social fund. Some individuals clearly have very complex lives and intensive support needs surrounding understanding how to manage their money more effectively and avoid debt. In contrast others are very financially literate and the decision to make an application to the social fund, is a sensible option for them to gain access to affordable short term credit – the type that home credit or hire purchase agreements may otherwise be used to fulfill but at a much greater cost.
5. It is therefore unsurprising that the support requirements of customers are very different. We do not believe that these differences primarily relate to the type of loan agreement (whether a budget or a crisis loan), or indeed necessarily the number of previous loan applications the individual has made. A better distinction would be between those making requests for small sums of credit which will be paid back relatively quickly (similar to how an individual may use a hire purchase agreement), and those which are looking to borrow much larger amounts over a longer period. As we explain below we believe that support should be concentrated on this latter group.
6. In terms of the type of support offered financial capability skills and debt advice is key. We would therefore welcome reforms which saw applications for all long term loans to the social fund as an opportunity for Jobcentre Plus to assess needs and refer the applicants to assistance. The support provided should seek to ensure that applicants have access to mainstream financial services like a Basic Bank Account, that they have the confidence to manage their finances to meet their needs and identify issues with problem debts.
7. In addition to advice on debt, it is also important that individuals are given support to develop a savings habit – thus helping to avoid financial problems in the future. For families in poverty, saving often seems like an impossibility, since there are many other pressures on the very limited family budget. However, savings are very important and can provide insulation against unexpected or seasonal costs. Barnardo’s therefore believe that at the point a social fund application is approved, the issue of saving should be highlighted to all applicants. In particular applicants should be given the choice, even at the loan approval stage, of agreeing to continue to have payments taken from their benefits once the loan is paid off but with these the payments going directly into a Savings Gateway account. Families often find it easier to find money to save at a time when their income has increased. Paying off a social fund loan would therefore seem an excellent opportunity to capitalise on this, by providing an easy option to start a regular savings account before the family become accustomed to the increase in disposable income.

When do you feel it is most effective to intervene in a customers' interaction with the Social Fund, for example following a second loan application?

8. We support the changes suggested to the social fund which would streamline the process for applying for budgeting loans and which would enable benefit claimants to access this type of credit from day one of their benefit claim. However, it would be inaccurate to state that such individuals necessarily have lower support needs even if this is their first loan agreement. If the sum request is large a first loan may well be an indication of a family facing serious financial difficulties and we would not wish such a family to be denied assistance until they got into further financial difficulties and needed to make a subsequent loan.
9. However, we recognize that it would be difficult and unnecessarily to intervene with all customers' interactions with the social fund. We believe that a better distinction is between those customers seeking to use the social fund for small short term loans, to effectively replace their reliance on home credit (currently customers often use home credit instead of the social fund in these situations simply because home credit is quicker to access with significantly less administration), and those seeking larger loans over a longer period. Barnardo's therefore proposes that a better approach would be to create a new category of Social Fund loan designed to provide small sums of credit quickly, without complex eligibility criteria - there would be no attempt to intervene with the customers interactions with the fund or assess wider needs etc.
10. Eligibility for the short term loans would not be based on an analysis of the reason the loan is required - in reality the current "criteria" for budget loans, mean families experienced in making applications are able to make their application "fit" whereas less experienced applicants, wanting a loan for a very similar purpose can end up going without. Rather, we believe it would be simpler and fairer if for smaller loans money was available to any eligible claimant who was not already paying back a similar loan. The service would provide sums of up to £500, paid back from benefit income over a few months. These loans would provide a service that many families on benefits are currently unable to get from mainstream financial services and prevent families that could be eligible for a Social Fund loan taking up home credit –because they cannot wait for the application to go through. Under reasonable assumptions of take-up, this scheme, once established, would cost less than £120 million a year – but this investment would take the place of some of the existing Social Fund expenditure, reducing the overall cost².
11. In contrast we believe that all applications for larger loans, whether the first or subsequent application should be assessed by Job Centre Plus at the initial application stage to see if it appears that the applicant may benefit from a referral on to more specific advice – this would likely involve a face to face or telephone conversation with the applicant. We believe that Job Centre Plus staff would be able to dedicate more

² This estimate is based on the eligible population of 2.8 million claimants of Income Based Job Seekers' Allowance and Income Support, in November 2008. Average loan assumed to be £400 over five months. There were three applications for a Budgeting Loan for every four eligible people in 2007/08. We assume that take up will be higher and that during each year there is one successful application for each eligible person each year. In 2007/08 the ratio between amount of money paid out and the amount received was 0.91. Based on this, we assume that 10 per cent of the money loaned out is not recovered.

time to this process, given that the process for applying for small short term loans will involve significantly less administration that currently.

Who do you think would be best placed to carry out these interventions?

12. The point at which individuals apply for a longer term Social Fund loan should be an opportunity for Jobcentre Plus to assess their needs and refer the applicants to assistance. In many cases this can be provided by existing government funded provision, if better links can continue to be made between the Jobcentre and many of the debt and financial capability advice services mentioned in the consultation document, in particular the MoneyAdvice service funded by the Financial Inclusion Unit.

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