

February 2009

The Social Fund:
A new approach
Response Document

Ministerial Foreword

It is an essential role of Government to ensure that support is provided to vulnerable people in times of genuine need. The Social Fund was designed to do precisely that, and in the last financial year, as well as Winter Fuel Payments, it provided payments worth over £944 million.

The Social Fund has been providing help since 1988 and was designed to concentrate payment on those in the most need and with the most difficulty in managing on their income. We feel the principles behind the Social Fund are sound and it has been a safety net for millions of individuals. However, we believe that reform is now necessary to meet the increasing demands upon the fund in these challenging times.

The scheme is a valuable source of help for low income households facing large or unexpected financial pressures; more so, given that those who do not have access to mainstream financial services can often turn to loan sharks or doorstep lenders, charging very high interest rates. This makes managing on a low income even more difficult.

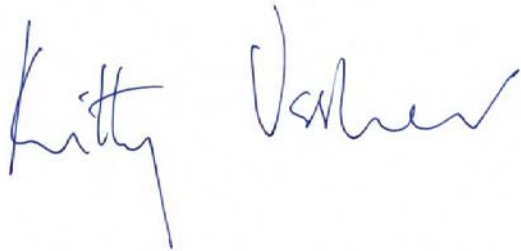
We are clear, therefore, that provision of this kind will continue to play an important role, particularly during difficult times like in the current global economic climate, when many families are struggling. To help achieve this we are taking important legislation forward. This includes introducing advance payments of benefit, so that the crisis loans budget is reserved for those in genuine need and not put under pressure by those awaiting benefit payments. We will also change the way that Community Care Grants are awarded so that some individuals will receive goods or services instead of money. This will ensure hard pressed families receive good value and good quality products in these difficult times. We will also be able to negotiate with the suppliers to get a better deal for the taxpayer so that we can make our budgets go further. We hope for constructive dialogue with stakeholders throughout the passage of the bill, as we develop the detail of these proposals further.

But we want to go further. We want to ensure that the support we offer is active and enabling – a means of promoting financial inclusion for people on low incomes and to help individuals access mainstream financial services.

As a first step in this direction we will take the power to work through outside organisations that are better placed to offer financial advice than we are. However, should we in the future ever decide to offer loans through external stakeholders such as credit unions, to replace the current Social Fund provision we will not charge interest on these loans.

It was clear from our consultation that many stakeholders had interesting ideas which we would like to explore with them further. We are therefore planning a

further period of extensive debate which will include a further consultation document before the summer recess, to set out a comprehensive path for the future of the Social Fund, where people are supported to manage their own money and plan ahead.

A handwritten signature in blue ink that reads "Kitty Ussher". The signature is written in a cursive style with a large initial 'K' and a long tail on the 'y'.

Kitty Ussher
Parliamentary Under Secretary Commons

Executive summary

The Government's Social Fund provides a lifeline for many people on low incomes, playing a vital role in helping them to meet unforeseen costs and expenses through a combination of loans and grants. In 2007-2008 the social fund provided payments worth over £944 million. A total of £300 million in additional funding has been invested in the Social Fund since 2003-2004, increasing help to vulnerable customers. The cold weather this winter has underlined the importance of the scheme, with around 8.3 million Cold Weather Payments already having provided valuable support worth around £209 million.

In addition to £2.1 billion spent on Winter Fuel Payments, in 2007-2008 alone the Social Fund provided:

- over £500 million of Budgeting Loans to help low income households deal with ongoing financial pressures, and over £120m of Crisis Loans, to help those confronted with an unexpected emergency avoid danger to their health or safety.
- Nearly £140 million of Community Care Grants to help families and vulnerable adults live independent lives.
- Around 243,000 families with a £500 grant to help meet the costs of a new baby.

We know that times are tough and that many families across the country are struggling to make ends meet. Our immediate priority is to provide all the help we can during this period of insecurity, be that through the Social Fund or, for example, wider labour market support.

At the same time, however, we also want to ensure that we look for ways to improve the help we provide. It was in this context that, in December 2008, we published a consultation document, *The Social Fund: A new approach*, which set out our initial thoughts on further reform.

We received nearly 90 responses to the consultation in total, and would like to thank all the people and organisations who submitted their thoughts. Respondents recognised the importance of the Social Fund and its unique function, but also acknowledged the need to ensure, in these difficult times and beyond, that the fund supports the customers it serves as effectively as possible.

Following the consultation we have decided to take several proposals forward and are legislating for these in the Welfare Reform Bill. This would enable the Secretary of State to enter into arrangements with external providers to provide loans in place of the current social fund provision. We are clear, however, that we do not intend to charge interest on Social Fund loans, including any loan scheme set up by an

external provider under arrangements with the Secretary of State. Nor do we have the legal powers to do so.

The legislation would also facilitate advance payments of benefit so we can provide immediate help to those who need it in a more efficient way. We have also included an additional element in the Bill, to contract for the provision of goods or services for those who have been successful in grant applications. This was not explicitly included in the consultation document but we consider it to be an important reform to the Community Care Grants scheme.

These changes will make the operation of the Social Fund more lean and efficient, and put it in better position to provide an effective and targeted safety net, in the context of the current challenging economic climate.

We now need to build on this. We want to move away from what is largely a passive scheme to one that is truly part of an active welfare state – a scheme where we continue to provide individuals in need with help when they most need it, but where we also look to them to take more responsibility to manage their finances and plan for their future.

What was clear to us in reading the responses to the consultation was the genuine desire from interested parties for more in depth engagement. We want to take time to consider other elements covered in the consultation document – such as a single loans scheme and the refocusing of Community Care Grants – as part of a more fundamental review of the scheme. To do this we will have a more detailed, public debate about the reform of the Social Fund during summer 2009, when we intend to publish a formal consultation document.

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Responses to the public consultation

The Social Fund: A new approach

Background

- 1.1.1 We published our consultation document, *The Social Fund: A new approach*, on 1 December 2008 and opened it up for public consultation until 23 December 2008.
- 1.1.2 We received nearly 90 responses in total. This report summarises the feedback we received and outlines the Government's next steps. More detail on the volume of responses as well as a list of the organisations who responded can be found in Annex A.
- 1.1.3 In consulting on our Social Fund reform proposals, albeit over a short timescale necessitated by the introduction of the Welfare Reform Bill, our aim was to gain a better insight into people's opinions on the proposals. The volume of responses received, and the time and thought people have invested in giving us detailed feedback, has reflected the level of interest in the future of Social Fund reform and the impact it has on those who use its services.

What we consulted on

- 1.2.1 The consultation paper set out three main areas where we believe the Social Fund could be improved. It said that:
- We should contract with other organisations to offer credit to our customers. Instead of relying on loans from us, people would be dealing with a local organisation which, as well as providing credit, can also offer them support and other financial services.
 - People needing help before their first normal payment of benefit should be offered an advance of that benefit. This would replace the current practice of requiring these customers to apply for Crisis Loans.
 - Instead of allowing customers to receive Budgeting Loans after they have been on benefit for six months, or crisis loans in an emergency, we could offer a single credit facility which people can turn to.
- 1.2.2 To facilitate the consultation process, the paper contained a number of consultation questions, and we invited people to respond to them or to submit their responses in any way they preferred. Some people responded on every consultation proposal, others on a few, and some on just one of particular interest.

- 1.2.3 The vast majority of respondents recognised the importance of the Social Fund and its unique function, but also acknowledged the need to ensure, in these difficult times and beyond, that the fund supports the customers it serves as effectively as possible.

TPAS are strongly supportive of the need to address financial exclusion and of incentives to improve the help given to people when they are struggling to make ends meet.

(Tenant Participation Advisory Service)

The general principles appear sound particularly around providing other support in addition to cash ie helping people understand how to become financially capable.

(Devon & Cornwall Probation Area)

We welcome attempts to extend affordable credit to more people on low incomes.

(Centrepoint)

Proposals for reform

Partnership with external providers¹

- 2.1.1 We believe that the best route to financial inclusion lies in access to a wider range of financial services, not solely credit. In the consultation paper we set out our vision of external providers offering a loan system in place of the current Social Fund provision. These organisations, such as credit unions, could link customers up with other services.
- 2.1.2 Responses were mixed on this proposal. Some respondents were in favour of the partnership with the external providers, recognising the opportunity it might provide to wider financial support and guidance. Others, in contrast, had concerns regarding their capacity and capability to undertake this role.

We do not, however, believe Credit Unions, in their present form, have the capacity, knowledge or experience of the Social Fund client group to provide an appropriate credit/loan type service.

(South Lanarkshire Council)

We generally support the move to give third sector organisations the ability to offer credit. People use information services they trust and are more likely to act on information given.

(Princess Royal Trust for Carers)

- 2.1.3 We raised two consultation issues on this proposal. Examples of responses to the issues are provided below.

¹ This was referred to as partnership with third sector in the consultation document

Issue 1: We are seeking views on the merits of taking legislative powers to allow some credit unions, and similar organisations from the third sector, to take over the provision of credit to Social Fund customers in their areas.

The ability to deliver Social Fund loans would allow credit unions to expand their membership base and provide a more comprehensive service to the financially excluded.

(Barnsley Credit Union Limited)

Assessing entitlement for Social Fund loans is a complex undertaking it is very unclear credit unions are equipped to take these sorts of discretionary decisions, not only about credit worthiness, but about need.

(Child Poverty Action Group, Save the Children, Family Action, One Parent Families|Gingerbread)

Issue 2: As well as offering affordable loans, our new partners could also offer a range of other services, such as savings accounts and financial advice, under contract to DWP. To fund the cost of these extra services, we are proposing that the credit offered under these arrangements could attract an interest charge of 1 – 2 per cent per month – the same criterion which applies to credit unions.

It should not be expected that credit unions cross subsidise Social Fund loans from other activity.

(Individual)

Charging interest on loans would place an intolerable burden on low income households.

(Cardiff Council Adult Services)

Although Centrepoint opposes the introduction of interest charges, we are very much in support of the additional services which it was suggested could be introduced with the money raised from interest. We therefore hope the Government will pursue these additional services....but look for alternative funding sources.

(Centrepoint)

How the Government is taking this forward

We remain interested in the idea of setting up a loan scheme administered by external providers to replace Social Fund loans. We are therefore taking powers in the Welfare Reform Bill to enable the Secretary of State to enter into arrangements with external providers to provide loans in place of the current Social Fund provision. We will work with interested parties to develop this policy further. In addition, we remain committed to providing better financial education and wider access to financial services to those on benefits and low incomes.

We will not be charging interest on Social Fund loans. As many respondents recognised, this would disadvantage excluded groups. We agree. Any loan scheme set up by an external provider in place of Social Fund provision will also be interest free.

Reforming the current Social Fund

2.2.1 We set out in the consultation document further changes that could be made to the current Social Fund to improve its efficiency. These include providing advance payment of benefits and creating a single loan scheme.

2.2.2 Both of these proposals received strong support from respondents. The advance of benefit payments was, for example, recognised as potentially freeing up resources to those in greatest need. However, many respondents were concerned at the proposal to recover advances in six instalments. There were concerns that the introduction of a single loan scheme would mean individuals in-work would no longer be eligible for the service.

While we see that this (single loans scheme) could be simpler we believe that the crisis loans should be kept as a separate system administered by Jobcentre Plus. (Help the Aged, Age Concern)

Consumer Focus is also broadly supportive of the proposal for a single loans scheme, to replace the separate Budgeting and Crisis Loans, available from the first day of a benefit claim using a single set of qualifying criteria. (Consumer Focus)

I find the proposal to provide advance payments of up to 75% of benefit while entitlement to the qualifying benefit is being processed is a welcome step forward. (Individual)

2.2.3 We raised two consultation issues on this proposal. Examples of responses to the issues are provided below.

Issue 3: We are considering the possibility of introducing a new system of advance payments of benefits, whereby those at risk of hardship could receive 75 per cent of their normal benefit immediately.

I fully support the proposal for advanced payment of benefit because as you say a very high proportion of Crisis Loans are alignment payments at the beginning of their claim.

(Individual)

The PDS supports proposals for advance payments of benefits for those facing hardship at the start of their benefit claim, in place of the current system of Crisis Loans.

(Parkinson's Disease Society)

We would recommend that there be some flexibility in the amount that could be recovered from an individual's benefit payments so as not to drive them back into hardship, with recovery being allowed to take place over a period of 28 weeks, rather than 6.

(RNID)

Issue 4: We would welcome views on having a single loans scheme available as soon as a customer becomes eligible for a qualifying benefit.

We would again welcome this (a single loan scheme) as we believe that an individual's loan request should be judged in their ability to repay not on some qualifying period.

(Financial Inclusion Services (Yorkshire) Ltd)

The qualifying criteria for Crisis Loans and Budgeting Loans are different..... It would be a retrograde step...to deny Crisis Loans to those in work.

(Child Poverty Action Group, Save the Children, Family Action, One Parent Families|Gingerbread)

How the Government is taking this forward

We feel that advance payments of benefit are an important step forwards. Paying an advance of benefits will stop unnecessary Crisis Loan applications and remove these from the Crisis Loan budget. We are taking powers to introduce advance payments of benefit in the current Welfare Reform Bill. We will continue to examine how best to have advances repaid, including whether a fixed or flexible repayment period is most appropriate.

We believe that a single loan scheme would be administratively simpler and also more transparent for our customers. However, we wish to ensure that those in-work remain eligible for crisis loans. We will therefore continue to look at this proposal carefully to determine whether it is possible to develop a single loan scheme. We will also continue to explore whether, within the current two loans system, it would be possible to remove the 26 week wait currently in place before those on benefit can apply for a Budgeting Loan.

Refocused grants scheme

- 2.3.1 We set out in the consultation document the importance of retaining a grant scheme for the most pressing and urgent needs. However, we feel the eligibility criteria for grants is not always clear and some vulnerable individuals are not currently accessing the Community Care Grants scheme.
- 2.3.2 This proposal received a mixed response with most respondents in favour of the grants scheme being reformed. However many respondents were concerned that refocusing grants would reduce the grants available whereas most respondents felt that grants should be increased.

*We welcome the initiative to reform the current Community Care Grants scheme. However, we believe the grants scheme should be retained and should be needs/rights driven as opposed to the current budget driven scheme.
(South Lanarkshire Council)*

*We object to grants being reduced and instead changed to loans, for example, for replacement items. In fact the possibility of grants being more readily available to certain groups (eg carers) could be investigated.
(Gateshead Carers Association)*

*We are pleased to see that the Government intends to retain a grants mechanism but we are concerned that making it more focused will mean reducing eligibility.
(Citizens Advice Bureau)*

- 2.3.3 We raised a consultation issue on this proposal. Examples of responses to the issue are provided below.

Issue 5: We would welcome views on the types of need that should be catered for in a more focused grants scheme.

*There should be a clearer system for awarding CCGs for more defined high priority items eg cookers, fridges, beds.....washing machines, furniture, carpets.
(Individual)*

*We would welcome the opportunity to discuss a simpler grant based system modelled around the type of life events when we know people need most help, for example, immediately on losing and regaining employment, setting up or moving home, having children, and in old age.
(The Centre for Economic and Social Inclusion)*

How the Government is taking this forward

We believe that Community Care Grants need reform, so that those applying have a more definite idea of whether they will receive a grant and how much this grant will be. We are exploring options as to how best to do this. We are clear that we do not wish to reduce the amount of money available for grants but feel the available money should be better spent. Therefore, we feel that the way Community Care Grants are paid to recipients needs reform. We are taking powers in the Welfare Reform Bill to provide certain goods or services for those who have been successful in their grant application. This would ensure the recipient receives a good quality and reliable item or service. This will make sure the most vulnerable individuals receive value for money from their grant. In addition, we hope to receive a discount on the items and services we purchase. The savings that will be created should allow the Community Care Grant budget to help more individuals in need.

Next Steps

- 2.4.1 This is the first step in what we intend to be a more fundamental reform of the Social Fund. What was clear to us in reading the responses to the consultation was the genuine desire from interested parties for more in-depth engagement. We will have a more detailed, public debate about the reform of the Social Fund during 2009, providing a further opportunity for interested parties to express their views. To follow on from this informal consultation we intend to publish a formal consultation document in summer 2009. This will be coupled with a comprehensive programme of stakeholder engagement.

Annex A

Volume of responses

3.1.1 In total 88 written and electronic responses to the consultation were received from the general public and organisations. Table A provides a breakdown of the responses received.

Table A: Volume of responses to the consultation

Response type	Number of responses
From the general public	20*
From consumer representative organisations	25
From credit unions	8
From other financial organisations	9
From other organisations	20
From academics/social commentators	6

*Including responses from Jobcentre Plus staff

Organisations that submitted responses

A4E
ABCUL
ACE Credit Union Services & Credit Unions Ltd
Action for Blind People
Advice NI
Age Concern
Barnardo's
Barnsley Credit Union Limited
Cardiff Council Adult Services
Carers UK
Centrepont
Chorley Community Housing
Child Poverty Action Group
Citizens Advice Bureau
Citizens Advice NI
Colchester and District TUC
Commission for Rural Communities
Consumer Focus
Coventry and Warwickshire Reinvestment Trust
Credit Action
Derbyshire CC
Devon and Cornwall Constabulary
Devon and Cornwall Probation services
Disability Alliance

Dorchester CAB
Durham County Council welfare rights
East Lancs Moneyline
Erewash Credit Union
Family Action
Financial Inclusion Services & others
Financial Inclusion Taskforce
Gateshead Carers Association
Help the Aged
Homeless Link
ISCU Credit Union Ltd
Joseph Rowntree Foundation
Lancaster University
Leicestershire CC welfare rights
Manchester Advice
Mendip Community Credit Union
Midland Heart Organisation
Mind
Money Advice Trust
National Association of Credit Union Workers Ltd
New Economics Foundation
Norwich City Council
One Parent Families|Gingerbread
Parkinson's Disease Society
Paymex Group
PCS union
Personal Finance Research Centre, Bristol University
Preston Road Neighbourhood Development Co
Rainbow Saver Anglia Credit Union Ltd
Resolution Foundation
RNIB
RNID
Rotherham Council welfare rights
Save the Children
Social Security Advisory Committee
South Lanarkshire Council
St Giles Trust
Stockport Advice
Tenant Participation Advisory Service
Thameside Metropolitan Borough Council
The Centre for Economic and Social Inclusion
The Princess Royal Trust for Carers
Toynbee Hall
Transact
Volunteering England
West Devon CAB
Whitmore Welfare Rights Centre
Women's Budget Group