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In-house Report 139

THE USE OF THE SOCIAL FUND BY FAMILIES WITH CHILDREN

The Use of the Social Fund by Families with Children

**A study carried out on behalf of the Department for Work
and Pensions**

by

Naomi Finch and Peter A. Kemp

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Notes on terminology and symbols

A large number of tables appear within this report. The following conventions are used:

Percentages enclosed in [] are based on fewer than 50 cases and should, therefore, be treated with caution.

0=a true zero, no cases for this category.

-=that this category is not applicable.

Tests of significance are at the five per cent level. All results are significant at this level unless otherwise stated.

Column or row percentages may sum to more than 100 due to rounding.

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SUMMARY

Introduction

This report examines the use of Social Fund loans by families with children. The research involved a review of the existing evidence on the Social Fund, together with secondary analysis of two large-scale datasets, the Families and Children Study (FACS) and the Family Resources Survey. Although neither survey was designed to facilitate evaluation of the Social Fund, the wide range of questions about the characteristics and circumstances of respondents makes it possible to compare applicants with non-applicants for loans. FACS does not distinguish between budgeting loans and crisis loans, but the great majority of Social Fund loan awards are for budgeting loans.

Literature review

There is a wealth of literature on the administration of the Social Fund, much of it focused on decision-making, the use of discretion and the implications of the annual budgeting. By comparison, there has been much less research on Social Fund applicants. Moreover, much of the research on applicants is now somewhat dated and was conducted prior to the April 1999 changes to the scheme. There have been a number of important qualitative studies of claimant circumstances and experiences in recent years, but relatively few quantitative studies. Moreover, most of the research has focused on claimants at one point in time rather than looking at them over a period of time.

Applications to the Social Fund

During 2002/03, there were 1.77 million applications and 1.25 million awards for budgeting loans. Excluding applicants who were not eligible for a budgeting loan, the application success rate was 83 per cent. In the financial year 2001/02, seven per cent of recipients of qualifying benefits had received a Social Fund budgeting loan in

the previous six months, two per cent had received a crisis loan and one per cent had received a community care grant. One in six Income Support recipients were repaying a Social Fund loan, as were two per cent of respondents on income-based Jobseeker's Allowance.

Young adults and young middle-aged people, lone parents and sick or disabled people, made the most use of Social Fund loans. Pensioners and benefit units headed by people of Asian or Asian British background were the least likely to use the Social Fund to borrow money.

Each year from 2000 to 2002, four out of ten Income Support recipients applied to the Social Fund for a loan. Between one and two out of ten Income Support recipients apply to the Department for Work and Pensions each year for a Social Fund grant. Between 2000 and 2002, one in four families on Income Support applied to the Social Fund in one year only, one in six had applied in two of the years, and one in ten had applied in all three years. A considerable proportion of Income Support recipients were therefore *repeat applicants* to the Social Fund, though only a small minority were *serial applicants* applying every year.

Which families make use of Social Fund loans?

'Social Fund customers' in this report are defined as Income Support recipients who had *applied for a loan* from the Social Fund in the previous 12 months or currently had a *deduction* from their benefit to pay off a Social Fund loan. Just under half of all Income Support recipients could be described as Social Fund customers. The remainder had neither applied for a loan in the previous year nor were paying off a loan, and hence were not Social Fund customers at that time.

A higher proportion of Social Fund customers compared with other Income Support recipients in 2002 were lone parents and a smaller proportion were couples with children. Social Fund customers were generally younger than non-customers. The age of the youngest child was younger among Social Fund customers than among other Income Support recipients in 2002. Social Fund customers were much more

likely to be tenants than were other Income Support recipients in 2002. Social Fund customers were as likely as non-customers to have a long-standing illness, health problem or disability and to have caring responsibilities. The self-perceived health of customers and non-customers over the last 12 months was also similar.

Excluding people who had been on Income Support for less than six months (and who were therefore not eligible for a loan), there was no relationship between length of time on benefit and being a Social Fund customer.

Very few Income Support recipients tended to have money over at the end of the week or month, but Social Fund customers were more likely than other Income Support recipients to say that they never had money over. The majority of Social Fund customers had experience of running out of money *before* the end of the week. Social Fund customers were more likely than other Income Support recipients to report that they always ran out of money before the end of the week. Social Fund customers were less likely than other Income Support recipients to have a current or savings account in 2002 and much less likely to save regularly. Among those who did have savings, Social Fund customers tended to have lower amounts than other Income Support recipients.

Leaving aside their loan, Social Fund customers were more likely than other Income Support recipients to have debts. Social Fund customers were also more likely than other people on Income Support to have had trouble with debts that were hard to repay. Social Fund customers were significantly more likely to be experiencing hardship than other Income Support recipients.

What Triggers a Social Fund loan application?

Certain life events may be associated with or trigger an *application* to the Social Fund. Such events may occur on their own or simultaneously with other events. It was found that, whether occurring simultaneously with other events or in isolation, three events were associated with Social Fund loan applications among families on

Income Support. These were a child reaching three years of age, a child reaching school age (5 years), and moving house.

It was also found that both couple parents and families with savings were to some extent protected from the negative affects of some of these life events. For them, unlike lone parents and families with no savings, these events were less likely to be associated with applications to the Social Fund.

Social Fund loans and hardship and deprivation

On five out of nine hardship indicators, there was a significant relationship between *repaying* a Social Fund loan and hardship change in the following year. These were worrying about money almost all the time and running out of money most weeks, having no bank account and two or more debts, being unable to afford to keep house warm, having a relative material deprivation score on clothing items in the highest 7.5 per cent, and having a relative material deprivation score on consumer durables in the highest 7.5 per cent. For each of these indicators, those repaying a Social Fund loan were significantly more likely to experience *change* in hardship compared to those not repaying a Social Fund loan. For some individual hardship indicators, the change involved a move into less hardship, but for others it involved moving into deprivation or was not decisively one way or the other. According to the combined or overall hardship measure, those repaying a loan were less likely to experience change in hardship compared to those not repaying a Social Fund loan. But where those repaying a loan did experience change, it was more likely to be in the direction greater hardship.

1 INTRODUCTION

1.1 Background

The Social Fund was introduced in 1988 and replaced the previous system of single payments to meet special lump sum needs. It provides grants and repayable loans to help certain people with the cost of one-off expenses that could not be routinely anticipated or easily budgeted for within regular benefit income (Smith, 1990; Kempson *et al.*, 1994).

There are two main components of the Social Fund: the regulated fund and the discretionary fund. The former comprises Winter Fuel Payments, Cold Weather Payments, Sure Start Maternity Grants, and Funeral Payments. The discretionary fund has three elements:

- *Community care grants*, a non refundable payment to meet specific kinds of exceptional need;
- *Budgeting loans*, an interest free and repayable loan intended to cover larger items of expenditure for which it may be difficult to budget on Income Support or income-based Jobseeker's Allowance (JSA); and
- *Crisis loans*, repayable loans intended to meet expenses in an emergency, including living expenses.

This report is focused on the budgeting loan scheme, which one commentator has described as '*the operational heart and soul of the social fund*' (Craig, 2001, para 3.11). It is certainly the largest component of the discretionary Social Fund in terms of gross expenditure. In the financial year 2002/03, £462 million was awarded in budgeting loans, £85 million in crisis loans and £108 million in community care grants (Department for Work and Pensions, 2003). Thus budgeting loans accounted for 71 per cent of gross expenditure on the discretionary Social Fund, excluding administrative costs.

Budgeting loans may cover expensive items the cost of which claimants may find it difficult to afford out of their regular weekly benefit, such as furniture, household equipment, children's clothing, rent in advance and expenses connected with taking up a job. Budgeting loans enable recipients to spread the cost of purchase and reduce the possibility that they will suffer hardship or get into (more) debt than would otherwise be the case.

In April 1999, important changes were made to simplify the budgeting loans scheme. The previous system had a complex and cumbersome application and decision-making process, which was time consuming and expensive to administer. It also involved intrusive questioning as applicants had to justify the need for the items

applied for. The new system is less intrusive, simpler, more transparent, quicker to administer and fairer. Decisions are based on the length of time applicants have been getting benefit (Income Support or income-based Jobseeker's Allowance) and the size of their family (DSS, 2001a). Recent qualitative research concluded that, on the whole, '*the recent changes to the Budgeting Loan scheme have been a big improvement*' (Kempson, 2001a, para 5.1). Most claimants felt that the application process was straightforward, but few of them understood how the decisions about the size of the loan award and the rate of repayment had been reached (Whyley *et al.*, 2000).

Budgeting loans can be awarded to people who have been receiving Income Support and income-based Jobseeker's Allowance for at least 26 weeks without a break for more than 28 days. People in low paid work, in receipt of other social security benefits or who moved off benefit from more than a month at a time do not meet the qualifying criteria. In addition, while budgeting loans are no longer based on specific items or services, applicants must still qualify under broad categories of need. Budgeting loans are subject to a minimum and a maximum limit. The minimum loan is £30 and the maximum is £1,000. Since the changes in 1999 there are also individual maximum limits linked to individual circumstances. Any award is reduced if the applicant has capital over £500 (£1,000 if aged 60 or over).

Budgeting loans are interest free, but have to be paid back. Repayments for budgeting loans are normally deducted from people's benefit entitlement, making it impossible for them to fall behind with repayments. Repayments are flexible, take into account income and commitments, and are usually made over a period not exceeding 78 weeks. The rate of repayment varies from five to 15 per cent of the total Income Support or income-based Jobseeker's Allowance in payment to the family. The standard loan repayment rate for an applicant with no direct deductions from their benefit, debts or other financial commitments is 15 per cent (DSS, 2001a). There are no financial penalties for late payment and loans can be rescheduled in the event of financial difficulty. Research has found that loan recipients have very positive views about repayment by deduction from their benefit (Whyley *et al.*, 2000).

Research also shows that the Social Fund budgeting loan scheme is highly valued by users and provides an important source of finance for some of the most financially vulnerable people (Kempson, 2001a). However, it has also proved to be somewhat controversial. As discussed in the literature review, the Social Fund has been criticised because the annual budget is cash-limited (Craig, 2001). One potential consequence of cash-limiting the budget is that 'some people who are turned down for loans would have been successful if they had applied at a different time of the year' (Kempson, 2001b, para 1).

The fact that loans are paid at the discretion of the Department for Work and Pensions and not an automatic entitlement has also been criticised and led to

concerns about inconsistent decision-making (Rowe, 2002). An evaluation of the discretionary Social Fund conducted shortly after the scheme was introduced found that the circumstances of people receiving awards of grants or loans were little different from those who were refused them or who did not apply (Huby and Dix, 1992). If those who are awarded help from the Social Fund are in genuine need but are largely indistinguishable from those who are refused or do not apply, 'then it follows that the Social Fund is failing to reach many other people in similar need' (Huby and Whyley, 1996, p2). However, that research was conducted before the 1999 reform of the budgeting loan scheme. The latter should have reduced the scope for inconsistent treatment between applicants (DSS, 2001) but not necessarily the problem of non-take up of the scheme by those in genuine need of help with budgeting for one-off expenses while on a low income.

Those who do not borrow from the Social Fund may have to go without the item they need and face '*inconvenience at best and hardship at worst*'. Alternatively, they may have to borrow from other sources, most of which are more expensive than budgeting loans (Kempson, 2001a, para 3.3). Repaying expensive loans will reduce the amount of money they have available for their day-to-day living costs, though the same is true to a much lesser extent of the repayment of budgeting loans. The operation of the budgeting loan scheme and in particular the extent to which it helps those in most need has important implications for the Government's attempts to tackle financial exclusion and for its anti-poverty agenda.

Although the Social Fund alone cannot lift people out of poverty (DWP, 2001b), it does have implications for poverty. Research conducted by the Child Poverty Action Group indicated that many families on Income Support lacked 'lumpy' items such as weatherproof coats or all weather shoes for their children because they could not afford them (Howard, 2003). This raises the question of whether the scheme is helping those most in need. Meanwhile, other research has found that a substantial minority of families with children receiving qualifying benefits had applied to the Social Fund for a budgeting loan in 1999 (Marsh *et al.*, 2001). This indicates that such loans are playing a significant role in helping families to manage their budgets while in receipt of qualifying social security benefits. But it also raises the question of why some people in receipt of qualifying benefits make use of the Social Fund and others do not and what impact borrowing or not borrowing money from the Fund has on hardship.

1.2 Aims, data and methods

The aim of the research is to examine the use of Social Fund loans by families with children in receipt of qualifying benefits.

In particular, the research aims to examine the characteristics and circumstances of families (a) that have applied to the Social Fund for a loan or are currently repaying a

loan with (b) those who have neither applied for a loan nor are paying one off. This should contribute to an understanding of whether the Social Fund is used by families in the most financial need. The research also aimed to examine the events that are associated with or trigger applications to the Social Fund and the impact of loans on hardship.

The research method is secondary analysis of two large-scale datasets, the Families and Children Study (FACS) and the Family Resources Survey. Both surveys include a few questions about applications for and receipt of Social Fund loans and grants. Although neither survey was designed to facilitate evaluation of the Social Fund, the wide range of questions about the characteristics and circumstances of respondents makes it possible to compare recipients with non-recipients of loans. The statistical analysis reported here provides a valuable complement to more qualitative studies of the use of the Social Fund (e.g. Whyley *et al.*, 2000; Kempson *et al.*, 2002).

The analysis in this report is mainly based on the Families and Children Study (FACS). The FACS survey is a large-scale, annual survey that commenced in 1999. It is basically a panel study - involving interviews with the same families from year to year - with booster samples added to each wave to ensure that the sample as a whole remains representative of the wider population from which it is drawn. In the first two years, the study interviewed lone parents and low-to-moderate income couples with dependent children. Since 2001, the study has interviewed a representative sample of all couple families as well as lone parents. Almost 2,700 families have been interviewed in all four years from 1999 to 2002, but the total number of families interviewed over this period was over 10,000. Because some important changes were made to budgeting loans in April 1999, it was decided to focus the analysis on the survey data for 2000, 2001 and 2002.

FACS can be analysed in two main ways. First of all, it can be analysed *cross-sectionally*, as a snapshot of families in each wave. In the first two waves the snapshot is of lone parent and low/moderate income couple families. In subsequent waves the snapshot is of a representative sample of all families. Secondly, FACS can be analysed *longitudinally* by looking at how a panel of lone parent and low/moderate income families change from one wave of the study to next (Kasparova *et al.*, 2003). This research undertakes both cross-sectional analysis and panel analysis using the FACS data.

One limitation of FACS is that it does not distinguish between budgeting loans and crisis loans. Hence, except where specified to the contrary, references to Social Fund loans in this report should be taken to mean both budgeting and crisis loans collectively. However, the great majority of Social Fund loan awards are for budgeting loans.

Additional analysis was also undertaken with the Family Resources Survey. The aim of this part of the study was to examine the importance of Social Fund loans for families with children compared with other client groups in receipt of the qualifying benefits of Income Support and income-based Jobseeker's Allowance.

1.3 This report

Chapter 2 of the report comprises a review of the literature on the discretionary Social Fund. This is not confined to the budgeting loan scheme or just to families, but also covers community care grants and crisis loans, as well as other types of client group.

Chapter 3 examines how much use is made of the budgeting loan scheme. It presents administrative statistics showing details of the number of applications and awards by different client groups, expenditure, and reasons for loan refusals. It also draws on the Family Resources Survey to examine the extent to which different client groups rely on Social Fund loans to make ends meet. And, finally, it draws on FACS for 2000 to 2002 to examine use of the Social Fund by families with children over time, including whether they make one-off or repeated applications for loans.

Chapter 4 focuses on families with children. It examines the characteristics and circumstances of Social Fund loan customers and compares them with non-customers in 2002. It also uses data for 2000 to 2002 to compare one-off applicants with repeat applicants over this time period.

Chapter 5 examines the life transitions that are associated with applications for a Social Fund loan among families with children. The aim is to identify key events that are related to ('trigger') loan applications.

Chapter 6 makes use of the longitudinal component of FACS to examine the relationship between receipt of a Social Fund loan and financial hardship or material deprivation.

Chapter 7 summarises the main findings and conclusions of the study.

2 LITERATURE REVIEW

2.1 Introduction

The Social Fund constitutes only a very small proportion of social security spending, but it has attracted considerable attention. Debates have focused on the extent to which it has successfully provided help for those in need. This literature review is confined to the discretionary fund and all references to the Social Fund refer to that component of the scheme, unless otherwise stated. In this review we shall look at both applicants and non-applicants to the Social Fund. First, we review the decision making process, which has important implications for who applies to the Social Fund. Then we explore who applies to the Social Fund; their reasons for applying; the outcome of applications; who is awarded grants and loans; experiences of repaying a budgeting loan and how unsuccessful applicants manage. Our research aims to investigate these issues specifically in relation to budgeting loans, but we review the literature on grants as well. This is partly to examine whether those applying for, and being awarded, loans are different from those being awarded a grant, but also because much of the literature on claimants is concerned with both loans and grants.

The introduction of the Social Fund was followed by a flurry of studies into the scheme in the early 1990s. By comparison, relatively few studies have been completed in recent years and especially since the April 1999 changes to budgeting loans. This literature review will therefore focus on studies both before and after the 1999 changes were made. But it is important to note that the findings of earlier research might not actually reflect what is happening in the post-1999 Social Fund. Table A.1 in Appendix 1 summarises the objectives and methodology of the key studies and divides them up into those undertaken pre 1999 changes and post 1999.

2.2 The decision making process

The decision making process has important implications for who applies to the Social Fund and the outcomes of these applications. We shall review this first.

The three main ways that the Social Fund decision-making process affects who applies and who is awarded the Social Fund are:

- direction
- discretion
- budgeting and cash-limits.

We shall discuss each of these in turn.

2.2.1 Direction

All Social Fund decisions are subject to formal directions from the Secretary of State. These directions influence who may or may not be considered for a grant or a loan. Since 1999, budgeting loan decision-making is based on legally binding, factual criteria such as the length of time on benefit and family size. A higher 'weighting' is given to those who have been on benefit for longer periods and to larger families (Howard, 2003). However, whilst not formally discretionary, it has been suggested that some of the directions, especially for community care grants and pre-1999 budgeting loans, could be interpreted differently by different Social Fund decision makers (Dalley and Berthoud, 1992). For example, community care grants are payable to people who remain or establish themselves in the community. They can only be paid to people who fall within one of the recognised circumstances (for example, to help people remain in the community rather than enter residential care; to ease 'exceptional' pressures on the family). A judgment has therefore got to be made about the likelihood of care or the degree of pressure on a person and their family. In this sense, the Social Fund officers are required to make judgements about the nature of need, which in practice are indistinguishable from discretion (Dalley and Berthoud, 1992).

When budgeting loans were first introduced in 1988, there were rules limiting the receipt of additional loans (Cohen *et al.*, 1996). Currently, the amount offered depends on the amount of any outstanding loan: double the amount the applicant already owes to the Social Fund is deducted from the maximum that can be loaned. Loans can be refused where double debt exceeds the maximum amount that can be loaned, or where outstanding debt is at or above the £1,000 limit (Howard, 2003). The loan can also be refused if it is considered that the applicant cannot afford to repay it. In addition, no loan may be awarded in excess of the amount that the applicant is likely to be able to repay. It has been suggested that this not only relies on judgement but also means that the poorest may not be given help.

Pre-1999 research found that in many cases, officers failed an application by discussing exceptional pressure for grants or items for budgeting loans in terms of what the budget could afford, or because of 'low priority', despite the fact that these should be irrelevant at the stage of direction (Dalley and Berthoud, 1992; Huby and Dix, 1992).

2.2.2 Discretion

When the Social Fund was first introduced in 1988, one of its most controversial elements was the use of discretion to determine need by assigning priority to each application. Initially, a framework for this was provided on a national scale by 'guidance' in the Social Fund manual. At local level, each office had its own priority list, formulated in light of local circumstances. The guidance on community care

grants emphasised considerations of the type of person making the application, or the situation s/he is in (elderly, disabled, families under distress etc.)

Prior to 1999, applications for budgeting loans could only be made for certain items and the guidance on budgeting loans focused more on the items requested: furniture, bedclothes, home repairs, etc. But the Social Fund officers were also expected to make a judgment of each application on its own merits (Dalley and Berthoud, 1992). This meant that two officers could accept or decline the same application for very different reasons (Huby and Dix, 1992) or that two people needing almost identical items might be in contrasting circumstances and the Social Fund officer could decide to give a loan to one and not the other (Dalley and Berthoud, 1992). There is evidence that, ultimately, budgeting pressure predominated, influencing the kinds of people, or the range of items in specific circumstances that loans were awarded (Dalley and Berthoud, 1992). Since 1999, a set of broad categories based on need for financial assistance for intermittent expense has been introduced rather than a demonstrated need for specific items.

2.2.3 Budgeting and cash-limits

The budgeting of the Social Fund is important because it can affect who is and is not awarded money from the Fund. It has been suggested that the very nature of the Social Fund leads to geographical variation and what has been termed as a postcode and a calendar lottery (Howard, 2003). Each local office has an annual budget for grants and a separate one for loans. This used to be allocated partly according to local need, including the proportion of unemployed and pensioners in the local office caseload. However, it has been suggested that budget allocation was influenced as much by administrative factors as by indicators of need (Huby and walker, 1991). Whether any method of allocation could accurately reflect local needs has also been questioned (Cohen *et al.*, 1996). In the past, local budgets and local discretion led to alleged inconsistency and unfairness in Social Fund decisions.

When making a decision, the Social Fund officer had to take account of the total outstanding budget. Each officer had an estimate of the amount to be spent if the target was to be achieved - known as the 'profile'. If spending overran the profile, the priority grading qualifying for payments was restricted to reduce the rate of awards and if spending was below target, lower priority applications were allowed in order to increase the rate of payment (Dalley and Berthoud, 1992). Local managers could adjust the levels of priority they were able to meet throughout the year to reflect the state of the budget and thus the capacity to meet needs (Rowe, 2002).

Research undertaken in the early 1990s found that Social Fund officers' decisions were affected by the size of the local budget (Huby and Dix, 1992). Often, officers only met those needs designated 'high priority' but in practice, what was designated high priority was continuously redefined in line with changes in the budget (Huby and

Walker, 1991). In an analysis of the first thirteen years of the Social Fund (1988-2001), it has been claimed that the concern by managers that they might overspend their budget early on in the year, and a desire to spend up to their prescribed limit in order to avoid loss of budget in subsequent years, have meant that February and March are better months in which to put in an application (Craig, 2003). Earlier research has shown that in some offices, applicants have been more successful at the end of the financial year when it was known how much money was left in the local office budget. But other offices have had to cut back at the end of the year due to low available funds (Huby and Walker, 1991). Consequently, budgetary constraints have potentially affected who is getting what and where they get it (Cohen *et al.*, 1996).

However, recent changes have been made to the discretionary Social Fund to make it more consistent and fair. Under the current system, both loan and grant budgets are allocated according to forecast demand. In addition, for budgeting loans, local budgets are now adjusted throughout the year by redistributing budgets between Jobcentre Plus Districts. In addition, changes in August 2002 have meant that all local Social Fund decision makers are now formally advised to apply the same national baseline budgeting loan award amount when determining applications (DWP, 2003). All these changes are intended to increase consistency of outcome for applicants, irrespective of where they live or the time of year applied. Amendments were also made to certain Discretionary Social Fund directions and guidance in August 2002. They focused mainly on the consistency of decision-making. Decision makers are now provided with extra information to help them understand better the overall budget position (DWP, 2003) and they do not have to apply discretion on prioritisation.

2.3 Who applies to the Social Fund?

Huby and Whyley (1996) compared applicants and non-applicants to the Social Fund. The research involved secondary analysis of the Social Fund survey conducted by Huby and Dix (1992). It was found that, in a sample of 518 Income Support claimants with no Social Fund applications at the time of sampling, 60 per cent identified particular needs that they were unable to meet due to their financial commitments. Whilst 41 per cent of these people applied to the fund during the six months before the end of the survey period, 59 per cent did not. Meanwhile, Huby and Dix (1992) found that the circumstances of people receiving awards from the discretionary Social Fund were largely indistinguishable from those of others who did not apply to the fund. This research was carried out a decade ago and it is unclear whether these findings remain true under the post-1999 rules.

Huby and Dix (1992) also found that the group of eligible non-applicants was relatively small. As a group, eligible non-applicants were older and had fewer children than eligible applicants. Lone parents and couples with children formed a

disproportionately high percentage of Social Fund applicants compared with the distribution of Income Support recipients as a whole. The percentage of pensioner applicants was disproportionately low.

There are several major features of the Social Fund that may deter older applicants from applying. First, research has shown that many older people are resistant to taking out loans, wanting to retain their independence, and assume that only loans are on offer (Cohen *et al.*, 1996; Kempson *et al.*, 2002). Huby and Dix's (1992) research found that pensioners were more likely than any other group to only apply for a community care grant and less likely to only apply for a budgeting loan. When they do apply for a community care grant, they do so on the grounds that a payment would enable them to stay in the community rather than an institution. Second, Age Concern England found that some older people may resist giving the personal information needed to back up an application, especially under a discretionary system - and therefore may not apply because there is no clear entitlement (Cohen *et al.*, 1996). More recent, post-1999 research found that older people were less willing to deal with officialdom or fill in the application form and were put off by the stigma of applying. It was also found that older people were deterred by the high rate of repayment of budgeting loans, and this was especially the case among couples who were worried they would leave their partners with an unmanageable debt (Kempson *et al.*, 2002).

The Social Fund may be the only source of help for people with low incomes who cannot gain access to commercial credit (Whyley *et al.*, 2000). Moreover, budgeting loans are interest free and repayments are deducted from benefits. Some claimants prefer this method of repayment as it helps to ensure that they do not fall behind with payments (Whyley *et al.*, 2000). There is some evidence that applicants to the Social Fund do differ from non-applicants in respect of income, debt and the way they manage money. Recent research by Howard (2003) used data from the Families and Children Study (FACS) to demonstrate that people in debt were more likely to have applied for a loan from the Social Fund. Almost half those who had moved into debt from one year to the next or were already in debt (and were claiming Income Support) had applied for a Social Fund loan. Around 20 per cent of children were living in families claiming Income Support that had applied for a Social Fund grant and were also either in debt in both years studied or had moved into debt.

Huby and Dix (1992) found that pensioners were the least likely to apply to the discretionary Social Fund, but if they did they tended to have higher income on average than those of other groups. Three-quarters of the applicants managed to save only rarely and often run out of money, although pensioners were most likely to have put money aside and the least likely to run out of money - a reflection, at least in part, of their higher incomes. Eligible non-applicants are less likely to need money for one-off expenses and on average need smaller amounts of money, they had higher equivalent incomes and were more often able to put some money aside each

week (Huby and Dix, 1992). More recent, qualitative research focusing on older applicants (Kempson *et al.*, 2002) suggests that, among recipients of the Minimum Income Guarantee, applicants and non-applicants to the discretionary Social Fund had very similar living standards, approaches to and levels of savings, and levels of need for essential items. However, applicants tended to say they cut back more often than non-applicants, and non-applicants tended to save up for items they needed rather than apply to the Social Fund (Kempson *et al.*, 2002).

The perceived small chance of receiving an award for required items could act as a deterrent to applying to the Social Fund. Huby and Dix (1992) found that the kinds of items identified as being needed by non applicants were items that the discretionary Social Fund was less likely to award money for. For example, only four per cent of cases were awarded money for items of clothing, but a third of those who had not applied to the Social Fund reported that they were in need of clothing. This suggests that people did not apply to the Social Fund because they thought (or were advised) that they were unlikely to receive an award for the item needed. Huby and Whyley (1996) have argued that it is very difficult for potential applicants to weigh up their chances of success because of the discretionary nature of the Social Fund. This problem should have eased following the changes to budgeting loans in April 1999, though there is nonetheless evidence that applicants have relatively little knowledge of how the fund works (Kempson, 2001).

Research has demonstrated that other reasons identified for non-applications are similar to those used to explain non take-up of other benefits, such as lack of knowledge of the fund (Stewart and Stewart, 1991; Dalley and Berthoud, 1992; Cohen *et al.*, 1992); lack of understanding of the fund and the claiming process (Huby and Dix, 1992); or stigma and humiliation associated with the application process (Huby and Dix, 1992; Smith, 2003). Studies have also suggested that who actually applies for a Social Fund loan rather than a grant depends on local publicity, on differences in the attitudes of social workers and advice agencies towards it, and on differences in the availability of alternative sources of help (Huby and Walker, 1991; Smith, 2003). Research undertaken prior to the April 1999 changes demonstrated that the long and complex application form often acted as a deterrent to applying for a budgeting loan (Evason *et al.*, 1989; Smith 1990). But the April 1999 changes attempted to redress some of the problems with the earlier forms and there is now evidence that for some people the new application form acts as an incentive to use the scheme (Whyley *et al.*, 2000).

2.4 Reasons for applying to the Social Fund

Huby and Dix's (1992) survey found that, in 1990, people applied to the Social Fund for money for an average of 1.8 items. Table 2.1 shows the ten items most applied for and the percentage of each family type requesting them. The research showed that applicants with children were the most likely to apply for money for beds or

bedding and carpets. Lone parents were also most likely to apply for money for furniture and a washing machine or drier. Couples with children were the most likely to apply for money to buy food.

Table 2.1 The ten items most frequently requested

	<i>Column percentages</i>				
	Pensioners	Lone parents	Couples with children	Working age without children	Total
Bed, cot or mattress	11.3	29.7	25.8	17.9	23.8
Carpets	19.3	22.6	24.6	16.9	21.1
Bedding	10.9	22.8	20.6	19.0	20.3
Furniture	8.0	18.9	13.3	12.6	14.6
Cooker	16.0	12.8	14.0	12.7	13.3
Clothing, shoes	6.5	9.5	7.8	22.8	13.2
Decorating materials	13.4	4.6	12.8	11.0	9.5
Washing machine/drier	9.8	11.9	6.2	3.4	7.3
Curtains, linen	6.9	5.5	5.7	4.4	5.2
Food	0.0	2.2	7.9	5.5	4.9
<i>(Number of cases)</i>	<i>(121)</i>	<i>(207)</i>	<i>(175)</i>	<i>(211)</i>	<i>(714)</i>

Source: Huby and Dix (1992).

Huby and Dix's (1992) in-depth interviews and Cohen *et al.*'s (1996) case study found that Social Fund applications for money to buy beds, carpets, cookers and furniture were usually the result of a change in circumstances such as setting up home for the first time; moving home; or relationship breakdown. Huby and Dix (1992) found that others applied for money to buy beds because their child had grown out of their cot or bed. They also found that money to buy carpets was often required because children in the family had grown to toddler age or moved to a new room without carpets. Money for furniture was needed to avoid discomfort caused by ill health or for those moving from institutional care. Others asked for furniture to maintain existing homes in a pleasant and comfortable condition, and furniture and cookers were applied for in order to replace broken or second-hand items. The research also found that items for decorating were usually applied for when people had just moved home; to make their home cleaner or brighter or for their sense of well-being. Applications for clothing, at least among pensioners and families with children, were usually prompted by a need associated with ill health or disability. Money to buy food was applied for when budgets were disrupted by unforeseen circumstances - such as repaying bills, losing money or not receiving a giro (Huby and Dix, 1992).

Qualitative research since the 1999 changes has demonstrated that most applications have been for the essential household items like carpets, beds, cookers, and washing machines (Buck, 2000; Kempson *et al.*, 2002). Kempson *et al.* (2002) found that budgeting loans and community care grants had been used by older applicants for a similar range of items, and offered two explanations for this. First,

there is some overlap in the items people can apply for. Second, due to poor knowledge, people had applied for a loan when they could have applied for a grant.

Whyley *et al.*'s (2000) in depth, qualitative interviews with 16 budgeting loan applicants and 21 credit union members examined what items applicants for budgeting loans asked for compared to those using credit union loans. Generally, budgeting loans were used for necessities and credit union loans for discretionary items and treats. Even those applying for a budgeting loan to decorate their home generally only wanted to make their homes habitable by buying floor coverings, basic furniture and, occasionally, curtains. However, there was some overlap between the items applied for between the two schemes. This can be seen from Table 2.2, which gives the items applied for by those who used both schemes.

Table 2.2 Items applied for by those who used both Budgeting Loans and credit union loans

Use of budgeting loans	Use of credit union loans
Beds and bedding	Christmas
Oven	Holidays and spending money
Fridge	Trips/visits to family
Washing machine	Clothes
Floor coverings	Carpets
Furniture	Furniture
Household goods e.g. cutlery, crockery	Paying bills
Baby clothes/equipment	Baby clothes, equipment
	Redecorating
	Christening, Holy Communion

Source: Whyley *et al.* (2000)

2.5 The outcome of applications

The main source of help from the Social Fund is in the form of loans (Evans, 1994). Thus in 2002/03, gross spending on community care grants was £108 million compared to £546.4 million on loans, of which £461.8 million was on budgeting loans (DWP, 2003). It appears that applications for community care grants are less likely to be successful than applications for budgeting loans. The refusal rate of community care grants rose from 48 per cent in its first year to 81 per cent in 1998/99. But the refusal rate for budgeting loans has *dropped* from 41 per cent to 34 per cent (Craig, 2003). Refusal rates for both community care grants and budgeting loans have fallen since the 1999 changes. Refusal rates from 2002/03 were 58.3 per cent for community care grants and 26.3 per cent for budgeting loans (DWP, 2003).

Official data has shown that the reason for refusals was usually on the grounds of low priority in relation to the budget; not because their needs were not covered by the Fund, but because there was insufficient money in the Fund to meet those needs (Cohen *et al.*, 1996; Craig, 2003). It has been argued that because the Social Fund

is constrained by its fixed budget, if the take-up in terms of applications increases, then the proportion of applications refused will increase on the grounds of insufficient priority (Dalley and Berthoud, 1992).

2.6 Who is awarded grants and loans?

The only comprehensive analysis of who is actually awarded help from the Social Fund is the study by Huby and Dix (1992). Table 2.3 shows the Social Fund application outcomes by family type from this study. Couples with children were the most likely to have their application accepted for an award, but they were more likely to be awarded a loan than a grant. Pensioners, on the other hand, were far more likely to be awarded a grant. However, this study is now very dated and it remains unclear to what extent this picture holds true under the post-April 1999 scheme.

Table 2.3 Social Fund application outcomes by family type

	<i>Column percentages</i>				
	Pensioners	Lone parents	Couples with children	Working age without children	Total
Awarded a community care grant	24.4	16.9	12.4	13.2	14.9
Awarded a loan	27.9	44.3	47.8	38.0	42.6
Awarded both a grant and a loan	0.6	0.0	1.1	0.8	0.6
Loan offered but not accepted	4.1	1.5	4.0	1.3	2.3
Application refused	36.2	32.5	29.9	45.1	35.9
Application refused but award made on review	5.2	2.8	3.9	0.5	2.5
Applicant uncertain of outcome	1.7	2.1	1.2	1.1	1.5
<i>(Number of cases)</i>	<i>(148)</i>	<i>(233)</i>	<i>(188)</i>	<i>(226)</i>	<i>(795)</i>

Source: Huby and Dix (1992).

Official expenditure figures provide more up to date information on who is receiving a grant or a loan (see Table 2.4). The proportion of grants expenditure going to pensioners and the disabled has risen since the fund began in 1988, from 31 to 46 per cent in 2002/03, whilst the proportion going to lone parents and the unemployed has dropped from 59 per cent to 43 per cent in 2002/03 (Craig, 2003; DWP, 2003). The latter groups are more heavily directed towards loans. Over twice as many lone parents as other claimants (nearly half compared to one in five) have deductions made from their benefit for a Social Fund Loan (Gill, 2001).

Table 2.4 Expenditure by applicant group

Applicant group	Community Care Grants		Budgeting Loans		Crisis Loans	
	£m	%	£m	%	£m	%
Pensioners	10.0	9.3	21.8	4.7	1.2	1.4
Unemployed	11.6	10.8	37.8	8.2	29.4	34.7
Disabled	39.1	36.2	130.3	28.2	17.2	20.3
Lone Parents	35.0	32.4	231.1	50.0	19.8	23.5
Others	12.3	11.4	40.8	8.8	17.0	20.1

Source: DWP (2003).

As noted above, family size is taken into account when making a decision and a higher 'weighting' is given to larger families. Official data demonstrates that the size of family is linked to the average award received - a couple with three or more children receives, on average, £231 more than a single person without children (DWP, 2003). This gap increased by £14 between 2001/2 and 2002/3, rising from £217 to £231 (DWP, 2002).

Table 2.5 Budgeting loans awards by family size

Family size	Average Award £	
	2001/2	2002/3
Single Person	281	272
Single Person with one child	383	368
Single person with two children	426	414
Single person with three or more children	465	464
Couple	366	357
Couple with one child	438	429
Couple with two children	476	474
Couple with three or more children	499	503

Source: DWP (2002); DWP (2003)

Analysis by family type does not in itself indicate whether grants and loans were actually going to those most in need. The Social Fund application and budgeting process has led some researchers to question the extent to which the Social Fund actually provides for those in need. Huby and Dix (1992) concluded that it could not be demonstrated that those who received payments were in greater need than those who were refused - payments were not targeted on those with greatest need. For example, owner occupiers with higher equivalent incomes who had been in touch with advice centres were more likely to be awarded grants, whereas non-owner occupiers with lower equivalent income and living in more crowded accommodation were more likely to get loans.

However, more recent qualitative research has found that more needy applicants are being awarded budgeting loans. For example, Whyley *et al.* (2000) found that people who used the budgeting loan scheme were a distinct group compared to those who used credit unions. They found that users of budgeting loans suffered from a high

degree of disadvantage and vulnerability, and were far more likely to be living in circumstances that tended to be associated with hardship; the majority being affected by ill-health or disability which restricted them from taking up paid employment; many experiencing family breakdown and several living in unstable circumstances. Users of budgeting loans were also younger, perhaps because they had greater difficulty in managing money (as demonstrated in Whyley *et al.*, 1997), and a high proportion comprised lone parents.

A possible reason for the discrepancy between the two studies is because Whyley *et al.*'s (2000) study was undertaken after the 1999 changes, which perhaps suggests the changes have moved the Social Fund closer towards helping those most in need. But the evidence is inconclusive, particularly because the later study is qualitative in nature and because it compared those using a different method of credit rather than those actually refused a budgeting loan. Also, another study undertaken after the 1999 changes based on 2,402 reports from 494 Citizens Advice Bureaux between January 1999 and July 2002 found evidence that the fact people are refused a grant or a loan from the Social Fund was a poor guide to the degree of need a person or family was in, and that many refused applicants were being left without essential household items (Barton, 2002).

There is some evidence that cultural factors may have played an important role in deterring minority ethnic group applicants. For example, Sadiq-Sangster (1992) found that Asian groups perceived the Social Fund to be at odds with their own cultural and collective traditions of providing financial support and consequently they were less likely to make applications to the Social Fund.

Some researchers have argued that the success of being awarded a loan or grant is more to do with 'playing the system' and bears little relationship with need. They argue that applicants can be divided into two groups:

- those who were familiar with the Social Fund system and played the system
- those who lacked knowledge or didn't play the system, and first time applicants.

For the first group it has been found that discretion works well since they know which items to ask for or what they need to say to be awarded the money. However, for the second group the contrary is true, and they are less likely to get a loan or grant regardless of need because they did not know or understand how the discretionary element of the system works (Dalley and Berthoud, 1992). Whyley *et al.* (2000) found that people 'play the game' by applying at certain times of the year when they know they are more likely to receive an award or ask for more money than they need because they know that they will be awarded less than they ask for. Rowe (2002) drew similar conclusions from interviews with Social Fund officers: more experienced applicants, who 'play the game' or know for what items they will be given money, will get more from the Social Fund and those genuinely in need but who are not persistent or do not ask for the right item will get a loan rather than a grant, or no help

at all. Barton (2002) pointed out that the changes to the discretionary Social Fund in April 1999 may have exacerbated this issue. Following the changes, applicants must decide which Social Fund payment they wish to apply for given their circumstances and therefore the onus is on individuals to know which type of loan or grant they should apply for. Whilst Social Fund staff are meant to consider whether a different payment from that applied for would be in the applicants' interest, Barton found that in many cases this did not happen. The same study found evidence that the people most likely to often get no or wrong advice from social security staff are the very poor, and often facing long term ill health, very poor housing, or domestic violence. The result is that these people apply for the wrong type of payment, are refused, and/or having to make repeat applications (Barton, 2002).

Huby and Dix (1992) found that applications for items did not always reflect those actually needed. Seven per cent of the applicants said that the items they needed were not the items asked for. Perceived ideas about what item the Fund would give money for often influenced what item people actually put on their application form. For example, some had to repay fines or bills or needed help with work related expenses, but instead applied for different items, such as washing machines. Others lacked knowledge about what items might optimise their chances: whilst actually needing an item given high priority, such as a bed, they applied for money for a different item with low priority. This supports the notion that some people get money because they know how to work the system but others, despite being in need, do not get money because they do not know how to 'play the game'.

However, more recent, qualitative research shows that applicants had used their loans for the purpose they had put on the application form. It found no evidence that applicants were saying they needed the loan for one purpose but spending it on something else (Whyley *et al.*, 2000). This may reflect the changes to the budgeting loan scheme made in April 1999 whereby applicants no longer need to justify their need for the item for which they want the loan.

An early study monitoring the impact of the Social Fund on social work agencies found that applicants who had sought independent advice in approaching the Fund were more likely to ask for grants than for loans and that applications were more often successful when supported by a social worker or welfare rights office (Stewart *et al.*, 1989). The extent of social worker co-operation with the Social Fund can also lead to local variation in Social Fund applications and outcomes (Becker, 1989). Huby and Walker (1991) argued that potential applicants with access to a source of charitable help were less likely to receive a Social Fund award because Social Fund officers had to make a decision with regard to 'the possibility that some other person or body may wholly or partly meet the need'. Indeed, they argued that the impact of different organisations on Social Fund applications and outcomes varied in different parts of the country, and this contributed to the potential for individuals with similar

needs to be given different treatment under the Social Fund (Huby and Walker, 1991).

2.7 Repaying the loan

When the scheme was introduced in 1988, there was some concern about the replacement of grants by loans (Whyley *et al.*, 2000). Some critics questioned whether loans should be provided to the very poorest people or be an integral part of social security arrangements (for example, Huby and Dix, 1992). On the one hand, it was argued that the provision of loans might plunge poor people deeper into poverty by decreasing their income further. The very reason why they needed help in the first place was because their income was low and a reduction in their income through loan repayment might serve to make a bad situation worse. On the other hand, it was argued that debt is an inevitable aspect of life for benefit recipients and therefore access to interest free loans steers people away from high interest alternatives.

Research conducted before 1999 has tended to conclude that repaying budgeting loans leads to increased hardship. The Social Fund seems to reinforce poverty by placing those already struggling with their weekly income further into debt and further reducing their weekly income in order to pay back the loan and leaving them without enough money to live on (Smith, 1990; Cohen *et al.*, 1992; Cohen *et al.*, 1996; Huby and Dix, 1992). Huby and Dix (1992) found that 70 per cent of loan recipients said that they did not have enough to live on once the loan repayment was deducted from their weekly payment, and three-quarters said that they frequently ran out of money.

However, Whyley *et al.* (2000) found that when people were having difficulty managing financially whilst paying off the loan, it was usually because of a change in circumstance or an unexpectedly high expense such as a household bill.

There is evidence that in order to pay back the loan, many people get further into debt or go without essential items (Huby and Dix, 1992). Huby and Dix (1992) found that because half of the applicants were awarded less than they asked for, 17 per cent of successful applicants had to supplement the payment, often through commercial loans at high rates of interest. Others had to buy second hand items that were liable to break down (Huby and Dix, 1992). Other studies have demonstrated that shortfall in the amount awarded meant going without, using commercial credit, getting help from family or friends, or applying to a charity for help (Kempson *et al.*, 2002; Whyley *et al.*, 2000).

Repayments are normally set at 15 per cent of the applicable benefit amount, excluding housing costs, where the applicant has no other credit commitment or arrears to be repaid, but the repayment can be reduced to ten and even five per cent of the benefit amount (Kempson *et al.*, 2002). Much research has demonstrated that, regardless of whether they are coping with the repayments or not, the level of

budgeting loan repayments has been a long-standing complaint among applicants (Huby and Dix, 1992; Kempson *et al.*, 1994; Whyley *et al.*, 2000; Kempson *et al.*, 2002). But it has been pointed out that people struggling to repay the loan are in a predicament: reducing the repayment rate and extending the period of the loan, both possible ways of opening up more income to live on, makes it harder to get another loan when it may be needed later (Howard, 2003). However, it is clear that many people do benefit from the loan and are satisfied with the help they get (Smith, 1990; Smith, 2003).

Studies have shown that falling behind with commercial loan repayments and running up arrears can be a barrier to work (for example, Hales *et al.*, 2000). Budgeting loans have a different impact because people cannot fall behind as repayments are made through direct deductions from benefits (Howard, 2003). Indeed, qualitative research has shown that repayment by direct deduction from benefit is regarded as an advantage of budgeting loans by those who have claimed them (Whyley *et al.*, 2000; Smith, 1990). But once claimants leave benefits, these deductions can no longer be made, which can result in delays and difficulties in recovering outstanding amounts (Buck, 2000) and can be a worry for claimants.

2.8 Unsuccessful applicants - how do they manage?

There are few studies of what happens to people who have their application to the Social Fund turned down. One way forward is the review procedure, but obviously applicants can still be turned down after that. Qualitative research by Whyley *et al.* (2000) with users of budgeting loans and credit unions identified a hierarchy of acceptability of the various strategies for raising money for items that could not be met out of the household budget. They were:

- savings, credit union loan friends and family
- budgeting loan, mail order
- weekly collected credit, sell and buy-back, pawnbroker
- rental purchase, withdrawing credit union savings
- 'loan sharks'.

The Social Fund was placed second in this hierarchy. Those refused a budgeting loan could therefore, in theory, turn to other strategies for raising money. But many of the alternatives have disadvantages that outweigh any advantage to using the source and are not really a 'real' alternative.

Huby and Dix (1992) studied how respondents refused Social Fund awards coped. Those not awarded a loan were asked almost six months after their refusal whether they still had the same needs. Twenty-eight per cent had met their needs from other sources, 35 per cent had given up trying and 37 per cent were still trying to find the money they needed. Those who could remember how they met their needs (only 26

people) had mostly found money from their regular income but had also borrowed from friends or were given items from relatives or friends. Only one had borrowed from a bank. Half of the people who were still trying to meet the same needs six months later were trying to find money from their regular income. Twenty per cent of all those still trying to meet the same needs six months later, and 36 per cent of lone parents in this position, were reapplying to the DSS. Fourteen per cent overall, and 26 per cent of couples with children, were postponing other payments. Other studies have found that people who are unsuccessful in their application to the Social Fund frequently turn to charities (Cohen *et al.*, 1996; Barton, 2002). Whyley *et al.*'s (2000) small scale qualitative study found that only three people had been turned down for a loan and they were coping by borrowing money or items from friends or relatives.

2.9 Conclusions

There is a wealth of literature on the administration of the Social Fund, much of it focused on decision-making, the use of discretion and the implications of the annual budgeting. By comparison, there has been much less research on Social Fund applicants. Moreover, much of the research on applicants is now somewhat dated and was conducted prior to the April 1999 changes to the scheme. There have been a number of important qualitative studies of claimant circumstances and experiences in recent years, but relatively few quantitative studies. Moreover, with a few exceptions, the research on claimants has been cross-sectional rather than longitudinal. That is to say, most of the research has focused on claimants at one point in time rather than looking at them over a period of time.

The creation of the Families and Children Study (FACS) presents a new opportunity to undertake in-depth, statistical analysis of the use of the Social Fund by families with children under the post-April 1999 scheme. FACS makes it possible to examine the circumstances, debt characteristics, household budgeting methods and degree of hardship of Social Fund applicants. It also makes it possible to compare the characteristics and circumstances of applicants with those of non-applicants. Comparison between one-off and repeat applicants may also be made with this study. And, most importantly, the panel element of the study presents the opportunity to explore the outcomes of Social Fund loans over time.

3 HOW MUCH USE IS MADE OF THE SOCIAL FUND?

3.1 Introduction

This chapter looks at how much use is made of Social Fund loans. It has three sections. The first summarises the most recent administrative statistics on applications and awards of budgeting loans. The second section analyses survey data to examine the extent to which different types of benefit recipients make use of the loans. The final section also draws on survey data to examine the pattern of applications to the Social Fund over time, focusing on families with children for the years from 2000 to 2002.

3.2 Applications to the Social Fund

Income Support and income-based Jobseeker's Allowance recipients make considerable use of budgeting loans. The most recent annual report on the Social Fund by the Secretary of State for Work and Pensions provides details of applications and awards for the financial year 2002/03 (DWP, 2003). During that year, the Department for Work and Pensions received 1.77 million applications for budgeting loans. In the same period, 1.25 million awards were made, an application success rate of 71 per cent when calculated as a proportion of the number of *decisions* made. The average size of budgeting loan awarded to successful applicants was £366. The total *gross* expenditure on budgeting loans during 2002/03 was £461.8 million. In the same period, £458.2 million was recovered in loan repayments from borrowers. Hence the *net* expenditure on budgeting loans during the year was only £3.6 million (Table 3.1).

Table 3.1 Social Fund budgeting loans in 2002/03: applications, awards and expenditure

Applications (000s)	1,774
- Awards (000s)	1,251
- Refusals (000s)	466
Awards as % of decisions	71%
Gross expenditure £m	£461.8m
Recoveries £m	£458.2m
Net expenditure £m	£3.6m
Average award £	£366

Source: Department for Work and Pensions (2003), Annex 1.

Gross expenditure on budgeting loans varies significantly between different client groups. During 2002/03, it ranged from just £22 million in loans to pensioners, to £231 million in loans to lone parents. While pensioners accounted for only five per cent of gross expenditure, lone parents accounted for 50 per cent. Applicants classified as disabled received 28 per cent of all expenditure during the year and the unemployed accounted for eight per cent (Table 3.2). For the purposes of these figures, lone parents with a disability premium are classified as disabled rather than as lone parents. Unemployed applicants who are disabled or receive a lone parent premium are classified as unemployed.

Table 3.2 Expenditure on budgeting loans by applicant group, 2002/03

	£m	%
Pensioners	21.8	5
Unemployed	37.8	8
Disabled	130.3	28
Lone parents	231.1	50
Others	40.8	9
Total	461.8	100

Source: Department for Work and Pensions (2003), Annex 3.

There is also considerable variation in budgeting loan awards between different family types (Table 3.3). In the first place, far more single people receive a Social Fund budgeting loan than do couples. During 2002/03, single people accounted for 85 per cent of all budgeting loan awards, while couples received only 15 per cent. Secondly, far more families with children received a budgeting loan than did people without children. During 2002/03, £319 million was awarded to lone parents and couples with children; this accounted for 70 per cent of all gross expenditure on Social Fund budgeting loans during that year. Meanwhile, the amount awarded to single people and couples without dependent children was £136 million or 30 per cent of total expenditure.

Table 3.3 Budgeting loan awards by family type, 2002/03

	No. of awards (000s)	% of awards	Expenditure £m	% of expenditure
Single person	421	34	114.5	25
Single person with children	633	51	259.4	57
Couple	60	5	21.4	5
Couple with children	126	10	59.6	13

Source: Department for Work and Pensions (2003), Annex 6.

Irrespective of family type, people who had been on benefit for over 36 weeks accounted for a greater share of awards, and on average received a larger award, than those who had been on benefit from less time than that time. For example, during 2002/03, single people with children who had been on benefit for over 36

weeks accounted for £394 million pounds of budgeting loans (32 per cent of all budgeting loans) and on average received a loan to the value of £414. By contrast, single people with children who had been on benefit for less than that time, accounted for £240 million pounds in budgeting loans (19 per cent of the total) and on average received £400 in loan (DWP, 2003). Thus, longer-term claimants of Income Support and income-based Jobseeker's Allowance account for more budgeting loan expenditure and receive larger loan amounts than shorter-term claimants.

Although the application success rate for Social Fund budgeting loans was relatively high, 466,000 applications were refused in 2002/03. Table 3.4 shows the main reason why such applications were turned down. Just over half of all refusals (55 per cent) were made because the applicant had outstanding debt. The next most common reason for refusal (28 per cent) was in respect of applications for budgeting loans made by people who were not in receipt of one of the two qualifying benefits for the requisite minimum period of 26 weeks. In addition, 14 per cent of refusals were because the applicant was not in receipt of a qualifying benefit.

Table 3.4 Budgeting loan applications by reason for refusal, 2002/03

Reason	No.	%
Excluded items	1,600	21
Outstanding debt	258,800	55
Not on IS/JSA (IB)	65,300	14
Not on IS/JSA (IB) for 26 weeks	136,800	29
Other	3,800	1
Total	466,400	100

Source: Department for Work and Pensions (2003), Annex 8.

It is clear from these figures that a significant proportion of refusals for budgeting loans arise because the applicant is in fact not eligible to apply for such loans, either because they are not in receipt of a qualifying benefit or have not been in receipt of one for a long enough period. When applicants who were not eligible for a budgeting loan - i.e., those not in receipt of a qualifying benefit (65,000) and those not in receipt of either benefit for at least 26 weeks (136,800) - are taken out of the equation, the application success rate rises to 83 per cent of *eligible* applicants.

Successful applicants for Social Fund loans have to repay the money advanced to them. While the recipient remains on benefit, the loan is automatically deducted from their weekly benefit. As at February 2003, 818,00 deductions for Social Fund (budgeting and crisis) loans repayments were being made from Income Support and another 114,000 from income-based Jobseeker's Allowance. The average weekly deduction at that date was £10.58 from Income Support and £7.24 from income-based Jobseeker's Allowance (DWP, 2003).

Loans are not only deducted from the two qualifying benefits of Income Support and income-based Jobseeker’s Allowance; they are recoverable from all social security benefits other than Child Benefit, Guardians Allowance and Attendance Allowance (DWP, 2003). If the loan recipient moves off benefits, the money is recovered directly from them. However, as Table 3.5 shows, the vast majority of money recovered in budgeting loan repayments (88 per cent) was collected from direct deductions of Income Support. Repayments in cash accounted for only 2.7 per cent of monies recovered.

Table 3.5 Repayment source for Social Fund budgeting loans, 2002/03

Source	Amount recovered	
	£m	%
Income Support	405.0	88
Jobseeker’s Allowance	34.7	8
Other benefits	6.2	1
Cash	12.3	3
Total	458.2	100

Source: Department for Work and Pensions (2003), Annex 11.

3.3 Who makes most use of budgeting loans?

The figures presented above show that lone parents account for a very large share of all budgeting loans while pensioners account for a small proportion. What this does not tell us is what proportion of the different client groups apply to the Social Fund for a budgeting loan. For the purpose of the present research, it is important to ascertain the extent to which families with children make use of budgeting loans and how this compares with other client groups. In order to address this question, analysis was undertaken of the Family Resources Survey.

The Family Resources Survey (FRS) is an annual survey of households in Great Britain conducted on behalf of the Department for Work and Pensions. It is based on interviews with approximately 24,000 households each year. This section draws on the 2001/02 edition of the survey (and to a lesser extent on the Households Below Average Income data set which is derived from it). The results presented here are based on an analysis of *benefit units* rather than households (a benefit unit is a single person or couple living as married and any dependent children).

Analysis of the FRS for 2001/02 shows that seven per cent of respondents in receipt of a qualifying benefit at the time of the survey said they had received a Social Fund budgeting loan in the previous six months. In addition, two per cent said they had received a crisis loan and one per cent had received a community care grant in the previous six months. At the time of the interview, 17 per cent of respondents on

Income Support were repaying a Social Fund loan, as were two per cent of respondents on income-based Jobseeker's Allowance. Families with children were much more likely to be repaying a Social Fund loan than those without children. Altogether, 35 per cent of all benefit units with dependent children on Income Support were repaying a loan compared with only eight per cent of those without children. As we show in Chapter 4, many of the events that appear to trigger applications to the Social Fund are associated with child life-stage transitions.

The remainder of this section focuses on respondents in the FRS who are in receipt of either Income Support or income-based Jobseeker's Allowance, comparing benefit units that are repaying a Social Fund loan with those who are not. We focus initially on the *composition* of loan re-payers and then look at the *incidence* of loan repayment among particular types of benefit unit. It is not possible to tell from the FRS whether the respondent was repaying a budgeting loan or a crisis loan. However, since far more budgeting than crisis loans are awarded each year, the great majority of respondents were probably repaying a budgeting loan.

Table 3.6 shows the family type composition of benefit units in receipt of qualifying benefits that were repaying a Social Fund loan at the time of their FRS interview and compares them with benefit recipients that were not repaying a loan at that time. Although the family type categories are not exactly the same as those presented in the Secretary of State's annual report on the Social Fund, the figures are consistent with them. About half (52 per cent) of all benefits units who reported that they were repaying a loan in the 2001/02 FRS were lone parents. By contrast, only 19 per cent of those not repaying a loan were lone parents. Pensioners accounted for five per cent of those repaying a loan but as many as 34 per cent of those who were not repaying a loan. This confirms that lone parents account for a disproportionately large share benefits units making use of the Social Fund loans, while pensioners account for small share.

Table 3.6 Family type by whether or not repaying a Social Fund loan

Column percentages

Family type	Repaying a loan	
	Yes	No
Pensioner couple	1	4
Single pensioner	4	30
Couple with children	12	7
Childless couple	7	9
Single with children	52	19
Single without children	25	31
<i>Unweighted base</i>	<i>754</i>	<i>3021</i>

Base: Income Support and income-based Jobseeker's Allowance recipients

Source: Family Resources Survey 2001/02 (own analysis).

Table 3.7 compares those repaying a loan with those who are not by the age of the head of the benefit unit. This again shows that older claimants account for a disproportionately low share of those making use of Social Fund loans. However, it also indicates that this is especially true of the old elderly, those aged 75 and over. One per cent of those repaying a loan was aged 75 or over, compared with 18 per cent of those not repaying a loan. The figures for those aged from 60 to 74 were seven per cent and 23 per cent respectively. By contrast, younger claimants account for a relatively large number of people making use of Social Fund loans. For example, benefit units headed by a young adult aged between 18 and 24 accounted for 19 per cent of those repaying a loan but only eight per cent of those not repaying a loan.

Table 3.7 Age of head of benefit unit by whether or not repaying a Social Fund loan

Column percentages

Age of head of benefit unit	Repaying a loan	
	Yes	No
18 to 24	19	8
25 to 44	58	31
45 to 59	17	21
60 to 74	7	23
75 or over	1	18
<i>Unweighted base</i>	<i>754</i>	<i>3021</i>

Base: Income Support and income-based Jobseeker's Allowance recipients

Source: Family Resources Survey 2001/02 (own analysis).

Table 3.8 shows the ethnic group of benefit units repaying a Social Fund loan compared with those not repaying a loan at the time of their interview in the 2001/02 FRS. Because of small sample sizes it has been necessary to collapse the minority ethnic group categories into larger aggregations. While this makes analysis possible,

it does have the disadvantage of hiding variations in use of the Social Fund among the different minority ethnic groups that comprise each of these broad categories. Bearing this important qualification in mind, the results show that people with an Asian or Asian British ethnic background accounted for a significantly smaller share of those repaying a loan than of those who were not repaying one. Meanwhile, people who described their ethnic group as being white accounted for a slightly larger share of the group repaying loans than of those not repaying loans. The other broadly defined ethnic groups accounted for a similar proportion of benefit units repaying a loan and those not doing so at the time of the survey.

Table 3.8 Ethnic groups of head of benefit unit by whether or not repaying a Social Fund loan

Ethnic group of head of benefit unit	Repaying a loan	
	Yes	No
White	91	86
Asian or Asian British	1	6
Black or Black British	5	4
Other	3	3
<i>Unweighted base</i>	<i>754</i>	<i>3021</i>

Base: Income Support and income-based Jobseeker’s Allowance recipients
 Source: Family Resources Survey 2001/02 (own analysis).

Table 3.9 compares the economic status of benefit units by whether or not they were repaying a Social Fund loan. Benefit units where the head or spouse was unemployed accounted for a similar proportion of both groups: 15 per cent of those repaying a loan and 13 per cent of those not repaying a loan were unemployed. Those in part-time employment (less than 16 hours per week) also accounted for a similar proportion of both groups: four and three per cent respectively. Meanwhile, benefit units in which the head or spouse was sick or disabled accounted for a significantly larger share of those repaying a loan (40 per cent) than of those not repaying a loan (29 per cent). The same was true of the ‘other’ category, which includes benefit units headed by a lone parent: this group accounted for 33 per cent of those repaying a loan but only 14 per cent of those who were not. Once again, benefit units where the head or spouse was aged 60 or more accounted for a much lower proportion of those repaying a Social Fund loan (7 per cent) than of those not repaying one (41 per cent).

Table 3.9 Economic status by whether or not repaying a Social Fund loan
Column percentages

Economic status of benefit unit	Repaying a loan	
	Yes	No
1 or 2 adults, at least 1 in part-time work	4	3
1 or 2 adults, head or spouse unemployed	15	13
1 or 2 adults, head or spouse sick or disabled	40	29
1 or 2 adults, head or spouse aged 60+	7	41
Other	33	14
<i>Unweighted base</i>	<i>754</i>	<i>3021</i>

Base: Income Support and income-based Jobseeker's Allowance recipients

Source: Family Resources Survey 2001/02 (own analysis).

Finally, whether or not benefit units were repaying a Social Fund loan was related to savings and income. Ninety per cent of benefit units repaying a loan had no savings, compared with 67 per cent of those who were not repaying a loan. Meanwhile, 83 per cent of benefit units repaying a loan were in the bottom three income deciles (equivalised, after housing costs), compared with 66 per cent among those who were not repaying a loan.

Having looked at the *composition* of Social Fund loan re-payers and compared them with benefit units that were not repaying a loan, the analysis now turns to the *incidence* of loan repayment among different types of benefit unit receiving Income Support or Jobseeker's Allowance. In other words, it shows the proportion of different types of benefit unit that were repaying a loan in 2001/02.

In total, 20 per cent of Income Support and Jobseeker's Allowance recipients were repaying a loan when interviewed for the 2001/02 FRS. Table 3.10 shows how the proportion repaying a loan varies by type of family. It confirms that couples with children and especially single people with children were significantly more likely than other family types to be repaying a loan: 40 per cent of lone parents and 28 per cent of couples with children were doing so. By contrast only three per cent of both single pensioners and pensioner couples were repaying a loan. The proportion of both single people (16 per cent) and couples without children (16 per cent) repaying a Social Fund loan was also below average. Thus, there are significant variations in the use of the Social Fund by family type.

Table 3.10 Proportions of different family types repaying a Social Fund loan

Row percentages

Family type	Repaying a loan	<i>Unweighted base</i>
Pensioner couple	3	146
Single pensioner	3	976
Couple with children	28	337
Childless couple	16	295
Single with children	40	1084
Single without children	16	937
All	20	3775

Base: Income Support and income-based Jobseeker's Allowance recipients in each family type

Source: Family Resources Survey 2001/02 (own analysis).

The proportion of benefit units repaying a loan also varied by age of the head of benefit unit (Table 3.11). Broadly similar proportions of young adults aged 18 to 24 (36 per cent) and younger middle-aged (25 to 44) heads of benefit unit (31 per cent) were repaying a Social Fund loan. The proportion repaying a loan fell by about half to only 16 per cent among older middle-aged (45 to 59) heads of benefit unit. Among those aged from 60 to 74, the figure was half again at seven per cent, while among those aged 75 and over it was only one per cent. Thus, the proportion of heads of benefit unit making use of Social Fund loans falls in quite pronounced steps as age group increases. Whether this decline is because the need to make lumpy expenditures decreases, because financial resources increase, or attitudes to borrowing money change over time, is unclear. However, the sharp fall between early and late middle age approximately coincides with the end of child rearing.

Table 3.11 Proportion of different age groups repaying a Social Fund loan

Row percentages

Age of head of benefit unit	Repaying a loan	<i>Unweighted base</i>
18 to 24	36	353
25 to 44	31	1390
45 to 59	16	715
60 to 74	7	735
75 and over	1	582
All	20	3775

Base: Income Support and income-based Jobseeker's Allowance recipients in each family type

Source: Family Resources Survey 2001/02 (own analysis).

Table 3.12 shows the proportion of respondents from different ethnic backgrounds that were repaying a loan. One column shows the proportion among all respondents in receipt of Income Support and income-based Jobseeker's Allowance and another

just for those respondents with dependent children. The proportion of respondents repaying a Social Fund loan who described their ethnic background as white (20 per cent), Black or Black British (22 per cent) or 'other' (17 per cent) was the same or similar to the average for all benefit units. In contrast, only four per cent of respondents whose ethnic background was Asian or Asian British were repaying a loan. This confirms that people of Asian origin make far less use of Social Fund loans than people of other ethnic origins.

Table 3.12 Proportion of different ethnic groups repaying a Social Fund loan

Row percentages

Ethnic group of head of benefit unit	All IS and JSA recipients		Families with children on IS or JSA	
	%	<i>Unweighted base</i>	%	<i>Unweighted base</i>
White	20	3308	39	1263
Asian or Asian British	4	196	5	128
Black or Black British	22	162	34	79
Other	17	109	23	69
All	20	3775	35	1539

Base: Income Support and income-based Jobseeker's Allowance recipients in each family type

Source: Family Resources Survey 2001/02 (own analysis)

A broadly similar pattern applies when the analysis is confined to benefit units containing children. The main difference is that families with children whose ethnic background falls into the 'other' category are also under-represented compared with families as a whole, but not to the same extent as those that are Asian or Asian British. Only five per cent of Asian or Asian British families with children were repaying a Social Fund loan in 2001/02.

The proportion repaying a loan varies according to the economic status of the benefit unit. In line with the previous findings, only four per cent of benefit units with a head or spouse aged 60 or over were repaying a loan at the time of the survey. The proportion of benefit units where the head or spouse was unemployed and repaying a loan (22 per cent) was similar to the average for all benefit units; among benefit units where at least one adult was in part-time work and repaying a loan (23 per cent) it was a little higher than the average. However, among sick or disabled (25 per cent) benefit units and those in the other category (36 per cent), the proportion repaying a Social Fund loan was significantly higher than the average.

Use of Social Fund loans also varied according to income and savings. Some 24 per cent of recipients of qualifying benefits without savings were repaying a loan at the time of the survey. However, among those with savings of up to £250, the proportion repaying a loan was only 13 per cent. Thus even quite modest savings appear to be

a protective factor against the need to make use of the Social Fund. In the bottom three income deciles, 23 per cent of benefit units were repaying a loan, compared with ten per cent of benefit units in the top seven income deciles.

The analysis in this section so far has indicated that certain types of Income Support and income-based Jobseeker's Allowance recipients are more likely than others to make use of the Social Fund to borrow money. Young adults and young middle-aged people, lone parents and sick or disabled people, are the most common users of Social Fund loans. Pensioners and benefit units headed by people of Asian or Asian British background are the least likely to draw on the Social Fund as a source of borrowed money. However, these categories clearly overlap to a significant extent. For example, many lone parents are young adults, while relatively few are pensioners. Multivariate statistical techniques such as logistic regression can identify the importance of each of these categories independently of the others.

A range of social, economic and demographic variables were entered into logistic regression models in order to predict the odds that benefit units having particular characteristics were repaying a Social Fund loan. This shows that, holding other factors constant, the factors that best explained whether or not a benefit unit was repaying a loan were:

- The presence of *children* – benefit units with children were more likely to be repaying a loan than those without children.
- The *age of head* of benefit unit – the odds of repaying a loan decreased by the age of the head of the benefit unit.
- *Ethnic background* of head of benefit unit – those headed by people with a non-white ethnic background were less likely to be repaying a loan than those headed by a white person.
- The presence of a *sick adult* – benefit units with a sick adult were more likely than those without to be repaying a loan.
- The presence of a *sick child* – families with a sick child were more likely than those without to be repaying a loan.
- *Savings* – benefit units with no savings were much more likely to be repaying a loan than those with savings.
- *Access to a car* – benefit units with access to a car were less likely to be repaying a loan than those that did have such access.
- Having a *current account* at a bank or building society – benefit units with a current account were less likely than those without to be repaying a loan.

3.4 Applications to the Social Fund 2000 to 2002

In this section we look at the pattern of applications by *families with children* to the Social Fund over time. It does so by analysing the Families and Children Study

(FACS) for the years from 2000 to 2002. Because FACS is a panel survey, it is possible to examine whether or not families that apply to the Social Fund for a loan in one year do so in other years. In particular, it is possible to identify whether people are one-off or repeat applicants.

FACS asks respondents a number of questions about their use of the Social Fund. These questions are included in a block of the questionnaire asked of people who are receiving Income Support, one of the two qualifying benefits for the Social Fund. Respondents on income-based Jobseeker's Allowance (the other qualifying benefit) are not asked these questions. However, because the survey is very mother-focused, relatively few respondents are in receipt of income-based Jobseeker's Allowance. In 2000, for example, only 2.5 per cent of all respondents were receiving income-based Jobseeker's Allowance compared with 29.5 per cent who were on Income Support.

First of all, the survey asks respondents on Income Support whether, during the past 12 months, they have applied to the Department for Work and Pensions, for a *grant* of money (not a loan) to pay for something that they needed. If the respondent has applied for a grant, they are asked what it was for and whether the request was successful. Next, the survey asks respondents on Income Support whether, during the past 12 months, they have applied to the Department for Work and Pensions for a *loan* from the Social Fund (not a grant) to pay for something they needed. In both 1999 and 2000, respondents were not asked whether their application was successful, but from 2001 they were asked this. One limitation of the FACS survey is that it is not possible to ascertain whether the loan was a budgeting loan or a crisis loan. Finally, the survey asks respondents on Income Support whether any *deductions* are being made from their weekly benefit payment for Social Fund loans, electricity bills, and things like that. If they do have such deductions, they are asked what they are for and how much is deducted each week from their benefit payment. One minor limitation here is that it is not possible to tell from FACS what proportion of people who have moved from benefit into work are still repaying a Social Fund loan.

Table 3.13 shows the responses to these questions for the years from 2000 to 2002 inclusive. The responses for loans are fairly consistent across all three years. Each year, four out of ten Income Support recipients applies to the Social Fund for a loan.

Table 3.13 Whether Income Support recipients had applied to the Social Fund in the past 12 months or currently had a deduction from their benefit to repay a Social Fund loan

	2000		2001		2002	
	%	<i>Unweighted base</i>	%	<i>Unweighted base</i>	%	<i>Unweighted base</i>
Applied for a SF loan	40	548	39	501	39	508
Received a SF loan	NA	NA	93	456	91	458
Deduction for SF loan	37	504	39	509	40	519
Applied for a SF grant	19	257	17	222	12	187
Received a SF grant	62	159	66	141	59	110

Base: Income Support recipients

Source: Families and Children Survey, 2000 to 2002 (own analysis)

Thus the gross take-up of Social Fund loans in terms of *applications* among Income Support recipients is approximately 40 per cent. However, this figure is an underestimate of the true take-up rate for Social Fund loan applications because not all Income Support recipients will necessarily be in need of one. It could be argued that the true take-up rate is the percentage of Income Support recipients who need a money loan - either to tide them over a crisis or to help them budget for a one-off expense - who fail to apply to the Social Fund for one. Defined in this way, the true take-up rate for applications to the Social Fund is likely to be much higher than 40 per cent.

The proportion of Social Fund applicants who get a loan is also fairly stable over the two years - and very high. In both 2001 and 2002 (the question was not asked prior to that) about nine out of ten Income Support recipients who had applied to the Social Fund for a loan, received one. This does not necessarily mean that the application success rate is around 90 per cent because it is impossible to tell from the survey how many applications for a Social Fund loan had been made in the previous 12 months. For example, a respondent might have applied on two occasions but been successful only once during the 12 month period, giving an application success rate of 50 per cent. Nevertheless, it is possible to state that nine out of ten Income Support recipients who apply to the Social Fund for a loan during the year do get one. This compares with an application success rate of 83 per cent among all eligible applicants (not just eligible family applicants) on Income Support or income-based Jobseeker's Allowance calculated from the statistics in the Secretary of State's annual report on the Social Fund (see above).

The proportion of Income Support recipients that have a deduction from their benefit to repay a Social Fund loan is also fairly stable from year to year at about four out of ten. This is the same as the proportion of Income Support recipients who apply for a loan during the year. The congruence between these two sets of figures is hardly

surprising given the very high proportion of people applying for a loan during the course of a year who get one. At the same time, many of these deductions will be to repay a Social Fund loan that was awarded in the previous 12 months, the period in respect of which respondents were asked if they had applied for a loan.

Not surprisingly, therefore, many Income Support recipients who applied for a Social Fund loan during the previous 12 months were also repaying a loan (possibly one they had applied for in that period) by deduction from their benefit at the time of the survey. In FACS 2000, for example, three-quarters (76 per cent) of Income Support recipients who had applied for a Social Fund loan in the previous 12 months were repaying one by deduction from their benefit at the time of the survey. Looked at the other way around, eight out of ten (83 per cent) Income Support recipients who were repaying a Social Fund loan at the time of their interview had applied for one in the previous 12 months.

The responses to the questions about Social Fund grants are not quite so stable as for loans. Nonetheless, between one and two out of ten Income Support recipients applies to the Department for Work and Pensions each year for a Social Fund grant. About six out of ten Income Support recipients who have applied for a grant in the previous 12 months do get one. Again, it is not known how many applications each person made and therefore what the success rate is.

The sample numbers of applicants for a loan and of those who are repaying a loan by deduction from their benefit payment are sufficient to enable analysis to be made of these two groups. But because the proportion of people who apply for a loan who do not get one is quite low, it is not possible to analyse *unsuccessful applicants*.

The fact that an important facet of the study is the panel sample of families means that it is possible to use FACS to examine *repeat applicants*. Repeat applicants can be defined as people who make an application two years running or, alternatively, as people who make an application in more than one year but not necessarily in consecutive years.

As is clear from Table 3.14, just over half of the people receiving Income Support at one or more of the interviews from 2000 to 2002 had applied for a loan from the Social Fund. About three out of ten applied in more than one of these years. Apart from those who did not apply in any of the three years, the sample number in each category in the table is fairly small, so it is necessary to aggregate them to some extent to make analysis feasible.

Table 3.14 Years of application to the Social Fund for a loan

	<i>Frequency</i>
2000	13
2000 + 2001	7
2000 + 2001 + 2002	9
2000 + 2002	4
2001	6
2001 + 2002	7
2002	7
Did not apply	48
<i>Unweighted base</i>	<i>1194</i>

Base: Respondents interviewed in all three waves from 2000 to 2002 who were on Income Support at one or more interviews.

Source: Families and Children Survey, 2000 to 2002 (own analysis).

Table 3.15 presents a summary view of how many years, if at all, people who were on Income Support (not necessarily continuously) had applied to the Social Fund for a loan between 2000 and 2002. A quarter of them had applied to the Social Fund in one year only, one in six had applied in two of the years, and one in ten had applied in all three years. This data indicates that a considerable proportion of Income Support recipients are repeat applicants to the Social Fund, though only a small minority (nine per cent between 2000 and 2002) are *serial applicants* applying every year.

Table 3.15 Number of year in which respondents applied to the Social Fund for a loan, from 2000 to 2002

	<i>Frequency</i>
Applied for a Social Fund loan in:	
one year only	25
two years	18
all three years	9
Did not apply	48
<i>Unweighted base</i>	<i>1194</i>

Base: Respondents interviewed in all three waves from 2000 to 2002 who were on Income Support at one or more interviews.

Source: Families and Children Survey, 2000 to 2002 (own analysis).

3.5 Conclusions

Considerable use is made of the Social Fund by people who are in receipt of one of the two qualifying benefits. In the financial year from 1 April 2002 to 31 March 2003, the Department for Work and Pensions advanced £462 million in budgeting loans to

1.25 million people. The net cost - gross expenditure minus loan recoveries - was only £3.6 million or £2.88 for an average loan of £366. About one in 20 benefit units in receipt of qualifying benefits was repaying a Social Fund loan in 2001/02, but use of the Fund varied significantly across the different categories of benefit recipient. In particular, parents and especially lone parents, sick and disabled people, and younger people were especially likely to apply for a loan. Meanwhile, pensioners and people of Asian or Asian British origin were relatively low applicants for Social Fund loans. While some people never apply to the Fund and others make only one-off applications, a minority of people on qualifying benefits make repeated applications. The next chapter looks at the characteristics of Social Fund loan customers in more detail.

4 WHICH FAMILIES MAKE USE OF SOCIAL FUND LOANS?

This chapter examines the characteristics and circumstances of Income Support recipients who were Social Fund customers at the time of their interview. For the purpose of this chapter, a 'Social Fund customer' is defined as an Income Support recipient who had *applied for a loan* from the Social Fund in the previous 12 months or currently had a *deduction* from their benefit to repay a Social Fund loan.

Income-based Jobseeker's Allowance recipients are not asked about the Social Fund and hence are excluded from this analysis. Also excluded for data limitation reasons are people who are repaying a Social Fund loan but have moved off Income Support. FACS asks about loans but does not distinguish between budgeting and crisis loans. As elsewhere in the report, all differences referred to in the text are statistically significant (at the 95 per cent confidence level or above).

Drawing on the FACS 2002 survey data, the chapter looks at who applies to the Social Fund for a loan, compares the socio-demographic characteristics of Social Fund customers with other Income Support recipients, and examines the financial circumstances of these two groups, focusing particularly on savings, debt and money management. The chapter also compares the characteristics and circumstances of repeat and one-off applicants for Social Fund loans, drawing on the FACS data for the three years from 2000 to 2002.

4.1 Social Fund loan customers

In total, one in six (16 per cent) respondents to the FACS 2002 (wave 4) were on Income Support at the time of their interview. Of these, 39 per cent had applied to the Social Fund for a loan in the previous 12 months. In addition, 40 per cent of Income Support recipients were repaying a Social Fund loan by deduction from their benefit.

These two groups - those who had applied for a loan in the previous 12 months and those repaying a loan at the time of the survey - overlapped. Eight out of ten (81 per cent) of people who had applied for a Social Fund loan were repaying a loan at the time of the survey. By contrast, only 14 per cent people who had not applied for a loan in the previous year were currently repaying a loan. The overlap between applicants and those repaying a loan is hardly surprising. In the first place, most of the successful applicants would have begun repaying their loan by the time they were interviewed. And secondly, in some cases the overlap will have been because some Income Support recipients are repeat applicants, a subject that is explored in later in the chapter.

Table 4.1 groups Income Support recipients into four groups according to whether they had applied or not to the Social Fund for a loan and whether or not they had a deduction from their benefit to repay a loan. The table shows that 32 per cent of Income Support recipients had applied for a Social Fund loan in the previous 12 months and were repaying a loan by deduction from their benefit. A further seven per cent had applied for a loan but were not repaying a loan at the time of the survey. Meanwhile, nine per cent of respondents had not applied for a loan in the previous 12 months but were repaying a loan.

Table 4.1 Whether respondent has applied for a Social Fund loan in the past 12 months or has a deduction from their benefit to repay a Social Fund loan
Column percentages

	Couples	Lone parents	Total
Applied for a loan and has a deduction	26	33	32
Applied for a loan and has no deduction	4	8	7
Has not applied for a loan but does have a deduction	6	9	9
Has neither applied for a loan nor has a deduction	65	50	53
<i>Unweighted base</i>	221	1027	1238

Base: Families on Income Support.

Thus, altogether just under half (48 per cent) of all Income Support recipients could be described as Social Fund customers. The remainder (53 per cent) had neither applied for a loan in the previous year nor were repaying a loan - and hence were not Social Fund customers at that time. It is evident from these data that the Social Fund is playing an important role in the budgetary arrangements of people on Income Support.

It is not possible to tell from FACS *why* some people apply to the Social Fund for a loan and others do not. But it is possible to examine *who* applies and becomes a Social Fund customer. This is done here by (a) examining the proportion of different types of Income Support recipient who were Social Fund customers (section 4.2); and (b) by comparing Social Fund customers with those who are not customers (section 4.3). These refer to the incidence and composition respectively of Social Fund customers.

4.2 Who applies to the Social Fund for a loan?

Lone parents were significantly more likely to be Social Fund customers than couples with children. Thus, half (50 per cent) of all lone parents on Income Support had either applied for a Social Fund loan in the previous 12 months and/or were repaying a loan by deduction from their benefit at the time of the survey (Table 4.1). This

compares with a third (35 per cent) of couples with children who were Social Fund customers in 2002.

Table 4.2 Age of respondents

Social Fund customer?	Age of respondent				
	16 to 24	25 to 29	30 to 34	35 to 39	40 & over
Yes	60	60	45	41	34
No	40	40	55	59	66
<i>Unweighted base</i>	278	186	269	242	335

Base: Families on Income Support.

Younger Income Support recipients were much more likely to be Social Fund customers than older recipients. As Table 4.2 shows, the proportion of people on Income Support who are Social Fund customers declines across the age groups. For instance, three-fifths (60 per cent) of recipients aged under 30 were Social Fund customers in 2002. By comparison, among those aged 40 years and above, the proportion that was Social Fund customers was only a third (34 per cent).

Table 4.3 Age of youngest child

Social Fund customer?	Age of youngest child			
	0 to 4	5 to 10	11 to 15	16 to 18
Yes	53	48	34	35
No	48	52	66	65
<i>Unweighted base</i>	615	388	196	58

Base: Families on Income Support.

There was no statistically significant relationship between the *number* of dependent children and whether the respondent is a Social Fund customer. In other words, respondents with three or more dependent children were no more likely to be customers than those with only one child or those with two children. However, the *age of the youngest child* does seem to be important. The younger the youngest child, the more likely the respondent was to be a Social Fund customer. For instance, 53 per cent of Income Support recipients with a youngest child aged under five years was a Social Fund customer in 2002, compared with only 35 per cent of recipients with a youngest child aged from 16 to 18 years (Table 4.3).

Social housing tenants and, to a lesser extent, private tenants were much more likely to be Social Fund customers than owner-occupiers or those living under other tenure

arrangements. Thus, 53 per cent of social tenants and 48 per cent of private tenants on Income Support were Social Fund customers in 2002, compared with only 16 per cent of owner-occupiers (Table 4.4).

Table 4.4 Housing tenure of respondents

Social Fund customer?	Housing tenure			
	Owner-occupier	Social tenant	Private tenant	Other
Yes	16	53	48	[9]
No	84	47	52	[91]
<i>Unweighted base</i>	<i>131</i>	<i>947</i>	<i>190</i>	<i>34</i>

Base: Families on Income Support.

Excluding people who had been on Income Support for less than six months (and who were therefore not eligible for a loan), there was no relationship between length of time on benefit and being a Social Fund customer. Forty-five per cent of Income Support recipients who had been on benefit for between six and 12 months were Social Fund customers. Beyond a year, the likelihood of being a Social Fund customer stayed constant at about half of all recipients. This is a surprising result given that it might be expected that, the longer people have been on benefit, the more likely their consumer durables will need replacing and the more likely their savings (out of which they might be able to pay for them) will have been depleted.

4.3 Social Fund customers compared with other Income Support recipients

The previous section looked at the *incidence* of being a Social Fund customer among different types of family types and circumstances. This section looks at the *composition* of Social Fund customers and compares them with other Income Support recipients.

Because of the differences in the extent to which different groups had become customers, the composition of Social Fund customers was different from that of other Income Support recipients. Table 4.5 compares some of the characteristics of Social Fund customers with Income Support recipients who were not customers in 2002.

A higher proportion of Social Fund customers compared with other Income Support recipients in 2002 were lone parents and a smaller proportion were couples with children. However, there was no statistically significant difference between customers and non-customers in terms of the gender of the respondent or the number of dependent children living in the household (Table 4.5).

Social Fund customers were generally younger than non-customers. Whereas 27 per cent of Social Fund customers were aged under 25 years, this was true for only 16 per cent of other Income Support recipients in 2002. At the other end of the spectrum, only 15 per cent of Social Fund customers were over the age of 40, but 27 per cent of non-customers were in that age group (Table 4.5).

The age of the youngest child was younger among Social Fund customers than among other Income Support recipients in 2002. Thus, 53 per cent of Social Fund customers had a youngest child aged under 5 years old, which compares with only 43 per cent of non-customers. Only 14 per cent of customers had a youngest child aged 11 or over, but 24 per cent of non-Social fund customers had a youngest child in this age group (Table 4.5).

The housing tenure of Social Fund customers was also different from that of other Income Support recipients in 2002. For example, whereas only three per cent of customers were owner-occupiers, 15 per cent of non-customers were living in this housing tenure; And whereas 81 per cent of Social Fund customers were living in social housing, compared with 65 per cent of non-customers. A similar proportion of both groups were renting from a private landlord (Table 4.5).

Table 4.5 Characteristics of Social Fund customers and other IS recipients

	<i>Column percentages</i>		Total
	Social Fund customer?		
	Yes	No	
Gender			
Female	98	96	97
Male	2	4	3
<i>Unweighted base</i>	<i>611</i>	<i>699</i>	<i>1310</i>
Age of respondent			
16 to 24	27	16	21
25 to 29	19	12	15
30 to 34	21	23	22
35 to 39	17	22	20
40 and over	15	27	21
<i>Unweighted base</i>	<i>611</i>	<i>699</i>	<i>1310</i>
Relationship status			
Lone parent	86	77	82
Couple	14	23	19
<i>Unweighted base</i>	<i>592</i>	<i>646</i>	<i>1238</i>
Number of dependent children			
One	43	44	44
Two	33	33	33
Three or more	22	23	24
<i>Unweighted base</i>	<i>611</i>	<i>699</i>	<i>1310</i>
Age of youngest child			
0 to 4	53	43	48
5 to 10	33	33	33
11 to 15	12	20	16
16 to 18	2	4	3
<i>Unweighted base</i>	<i>597</i>	<i>660</i>	<i>1257</i>
Housing tenure			
Owner-occupier	3	15	10
Social tenant	81	65	73
Private tenant	15	15	15
Other	1	5	2
<i>Unweighted base</i>	<i>605</i>	<i>697</i>	<i>1302</i>

Base: Families on Income Support.

When it comes to health and caring responsibilities, the differences between Social Fund customers and other Income Support recipients were not statistically significant. Social Fund customers were as likely as non-customers to have a long-standing illness, health problem or disability and to have caring responsibilities. The self-perceived health of customers and non-customers over the last 12 months was also similar (Table 4.6).

Table 4.6 Health and caring responsibilities

	<i>Column percentages</i>		
	Social Fund customer?		
	Yes	No	
Health over last 12 months			
Good	43	46	45
Fairly good	36	31	33
Not good	21	23	22
<i>Unweighted base</i>	<i>611</i>	<i>699</i>	<i>1310</i>
Long-standing illness, disability or health problems			
Yes – restricts work	27	26	27
Yes – does not restrict work	8	10	9
No	66	64	65
<i>Unweighted base</i>	<i>611</i>	<i>699</i>	<i>1310</i>
Respondent or partner has caring responsibilities			
Yes	8	10	9
No	92	90	91
<i>Unweighted base</i>	<i>611</i>	<i>699</i>	<i>1310</i>

Base: Families on Income Support.

4.4 Savings

Social Fund budgeting loans are intended to help Income Support recipients (and people on income-based Jobseeker's Allowance) cope with non-regular or lumpy items (Howard, 2003) that are difficult to budget for out of their weekly income. The extent to which they need to borrow from the Fund is likely to vary, other things being equal, according to the extent to which they have savings. Those with savings have the option of drawing upon them to pay for one-off expenses, but of course those without them do not. Meanwhile, savings of more than £500 (£1,000 if either the claimant or partner is aged 60 or more) will usually affect how much loan is made available to successful applicants.

Only 43 per cent of Social Fund customers, compared with 60 per cent of other Income Support recipients, had a current or savings account in 2002. Social Fund customers were also less likely to have any savings accounts: about half as many Social Fund customers as non-customers had a savings account of any kind (17 per cent compared with 31 per cent). Social Fund customers were also much less likely than other Income Support recipients to save regularly. Only nine per cent of Social Fund customers saved regularly, compared with 16 per cent of non-customers (Table 4.7).

Among those who did have savings, Social Fund customers tended to have lower amounts than other Income Support recipients. For instance, only five per cent of Social Fund customers had savings of £500 or more, whereas 22 per cent of non-customers had savings as large as that. In fact, 15 per cent of those Income Support recipients who were not customers of the Social Fund in 2002 had savings of £1,000 or more.

Table 4.7 Current and savings accounts and saving

	<i>Column percentages</i>		Total
	Social Fund customer?		
	Yes	No	
Respondent or partner has current or savings account			
Yes	43	60	52
No	57	40	48
<i>Unweighted base</i>	<i>611</i>	<i>699</i>	<i>1310</i>
Number of savings accounts			
Nil	83	69	76
1	15	26	21
2	2	4	3
3	0	1	-
<i>Unweighted base</i>	<i>611</i>	<i>699</i>	<i>1310</i>
Saves regularly			
Yes	9	16	13
No	91	84	87
<i>Unweighted base</i>	<i>611</i>	<i>699</i>	<i>1310</i>

Base: Families on Income Support.

In order to save, people need to have money over at the end of their benefit payment cycle. FACS asked respondents how often they had money over at the end of the week. In fact, very few Income Support recipients tended to have money over. But Social Fund customers were more likely than other Income Support recipients to say that they never had money over (46 per cent compared with 38 per cent). Meanwhile, non-customers were slightly more likely to report that they sometimes had money over at the end of the week (Table 4.8).

Although relatively few Income Support recipients said that they had money over at the end of the week, the majority of them had experience of running out of money *before* the end of the week (Table 4.8). Social Fund customers were more likely than other Income Support recipients to report that they always ran out of money before the end of the week. Thus a third (33 per cent) of customers said they always ran out of money, compared with one fifth (21 per cent) of Income Support recipients who were not customers of the Social Fund in 2002.

Table 4.8 Money at the end of the week

	<i>Column percentages</i>		Total
	Social Fund customer?		
	Yes	No	
How often has money over at end of the week			
Always	3	4	3
Most weeks/months	4	5	5
More often than not	3	3	3
Sometimes	17	24	20
Hardly ever	27	26	27
Never	46	38	42
Don't know/too hard to say/varies too much	1	1	1
<i>Unweighted base</i>	<i>611</i>	<i>697</i>	<i>1308</i>
How often runs out of money before the end of the week			
Always	33	21	27
Most weeks/months	19	14	17
More often than not	9	10	9
Sometimes	24	29	26
Hardly ever	9	14	12
Never	6	12	9
Don't know/too hard to say/varies too much	-	1	1
<i>Unweighted base</i>	<i>611</i>	<i>697</i>	<i>1308</i>

Base: Families on Income Support.

4.5 Debts

Borrowing money and using shopping catalogues are common means by which people pay for expensive items. Consequently, having financial debts is a ubiquitous feature of household finances. The ability to manage those debts is critical to the success or otherwise of families' ability to survive financially. 'Debts' in this context refers to credit card and other borrowing debts, rent or mortgage arrears, and being behind on any other household bills.

One in six (18 per cent) families in FACS 2002 had debts of one kind or another. However, Income Support recipients were significantly more likely to have debts than those who were not on Income Support: 50 per cent compared with 12 per cent respectively (Table 4.9). Leaving aside their loan, Social Fund customers were more likely than other Income Support recipients to have debts (62 per cent compared with 39 per cent).

Table 4.9 Debts

Has debts?	<i>Column percentages</i>			
	Receives Income Support?		Social Fund customer?	
	No	Yes	No	Yes
Yes	12	50	39	62
No	88	50	61	38
<i>Unweighted base</i>	<i>6571</i>	<i>1312</i>	<i>699</i>	<i>611</i>

Base: All families (cols 2 and 3); families on Income Support (cols 3 and 4)

Social Fund customers were slightly more likely to have credit card or catalogue debts and more likely to have borrowing debts. They were also more likely to be behind with their mortgage payments than other Income Support recipients. However, Social Fund customers were no more likely than non-customers to be behind with their rent (Table 4.10).

Social Fund customers were more likely to be behind with other household bills, such as gas and electricity charges, council tax, and household insurance. Thus, 58 per cent of customers of the Social Fund were behind with household bills (other than housing costs), compared with 34 per cent of non-customers. Some 13 per cent of respondents who were Social Fund customers were behind with three or more household bills, but this was the case with only six per cent of other Income Support recipients (Table 4.10).

The net result is that Social Fund customers in 2002 were both more likely to be in debt and tended to have more debts than other Income Support claimants who were not customers in that year. Only 38 per cent of Social Fund customers, compared with 61 per cent of other Income Support recipients had no debts. Or to put it the other way around, whereas 62 per cent of Social Fund customers had some debts, this was true of only 39 per cent of other people on Income Support. Meanwhile, 18 per cent of Social Fund customers had three or more debts, compared with only ten per cent of non-customers (Table 4.10).

Table 4.10 Debts

	<i>Column percentages</i>		Total
	Social Fund customer?		
	Yes	No	
Number of debts			
None	38	61	50
One	26	18	22
Two	18	11	14
Three	9	7	8
Four	4	2	3
Five or more	5	1	3
<i>Unweighted base</i>	<i>611</i>	<i>699</i>	<i>1310</i>
Number of credit card or catalogue debts			
None	95	96	95
One	5	4	5
Two	-	-	-
<i>Unweighted base</i>	<i>611</i>	<i>699</i>	<i>1310</i>
Number of borrowing debts			
None	89	95	92
One	10	5	7
Two	1	-	1
Three	2	0	-
<i>Unweighted base</i>	<i>611</i>	<i>699</i>	<i>1310</i>
Number of household bills respondent is behind with			
None	42	66	55
One	28	18	23
Two	18	10	14
Three	6	4	5
Four	4	1	3
Five or more	3	1	1
<i>Unweighted base</i>	<i>611</i>	<i>699</i>	<i>1310</i>
Behind with rent			
Up to date	75	82	78
Some arrears	25	19	22
<i>Unweighted base</i>	<i>139</i>	<i>157</i>	<i>296</i>
Behind with loan or mortgage repayments			
Up to date	62	[87]	83
Some arrears	39	[13]	17
<i>Unweighted base</i>	<i>87</i>	<i>16</i>	<i>103</i>

Base: Families on Income Support.

Social Fund customers who were behind on household bills, credit cards or loans owed a similar amount in total to other families on Income Support (Table 4.11). About half of both groups owed less than £250 and the remainder owed more than that amount.

Table 4.11 Total amount owed on household bills, credit cards and loans

Column percentages

	Social Fund customer?		Total
	Yes	No	
Total amount owing on household bills, credit cards and loans			
£1 to £249	48	51	49
£250 to £499	19	19	19
£500 to £749	10	13	11
£750 to £999	5	7	6
£1,000 and over	18	11	15
<i>Unweighted base</i>	362	249	611

Base: Families on Income Support.

In summary, Social Fund customers were more likely to run out of money at the end of the week, less likely to save, and more likely to be in debt than other people on Income Support. The total amount they owed, however, was broadly the same.

Social Fund customers were also more likely than other people on Income Support to have had trouble with debts that were hard to repay. They were twice as likely as non-applicants to say that they had trouble with debts that were hard to repay 'almost all of the time'. And, conversely, they were only half as likely as other Income Support recipients to say that they 'never' had such trouble. In total, a quarter (24 per cent) Social Fund customers reported that they had trouble 'almost all of the time' with debts that were hard to repay (Table 4.14).

Thus, a significant minority of people who had applied to the Social Fund or were repaying a Social Fund loan were finding it hard to repay the debts they owed. Although only a small minority (6 per cent) of Social Fund customers reported that they were 'in deep financial trouble', more did so than non-customers (2 per cent). However, the most common response amongst both groups to the question of how they were managing financially these days was that they 'get by alright' (46 per cent of Social Fund customers and 52 per cent of non-customers).

Table 4.12 Managing financially

	<i>Column percentages</i>		Total
	Social Fund customer?		
	Yes	No	
How often had trouble with debts that were hard to repay			
Almost all the time	24	13	18
Quite often	21	12	16
Only sometimes	37	38	37
Never	18	37	28
<i>Unweighted base</i>	633	742	1375
How often worried about money during last few weeks			
Almost all the time	46	34	40
Quite often	21	20	21
Only sometimes	22	30	26
Never	11	15	13
<i>Unweighted base</i>	611	697	1308
How is managing financially these days			
Manage very well	3	6	5
Manage quite well	18	21	19
Get by alright	46	52	49
Don't manage very well	10	6	8
Have some financial difficulties	17	12	14
Are in deep financial trouble	6	2	4
<i>Unweighted base</i>	611	697	1308

Base: Families on Income Support.

Nevertheless, a majority of both customers and non-customers of the Social Fund in 2001 worried about money 'quite often' or 'almost all the time'. In fact, when asked how often they had worried about money in the last few weeks, 46 per cent of Social Fund customers and 34 per cent of other Income Support recipients said they had worried 'almost all of the time'. A further 21 per cent and 20 per cent respectively reported that they had worried 'quite often' about money (Table 4.12).

When asked how their financial situation had changed during the past six months, the most common response was that it had stayed the same. This reply was given by 62 per cent of both Social Fund customers and other Income Support recipients (Table 4.13). Broadly similar proportions of both groups said their situation had got worse. And similar proportions said it had got better. The impact of changes in financial and household circumstances will be explored in the next phase of this research project.

Table 4.13 Change in financial situation during the past six months

	<i>Column percentages</i>		Total
	Social Fund customer?		
	Yes	No	
How financial situation has changed during past 6 months			
Got worse	23	24	23
Got better	16	14	15
Stayed the same	62	62	62
<i>Unweighted base</i>	<i>611</i>	<i>695</i>	<i>1306</i>
Why financial situation has got worse			
Need to buy more things	44	27	35
Managing on less money	33	49	42
Both the above	19	18	19
Rise in cost of living	4	6	5
<i>Unweighted base</i>	<i>135</i>	<i>164</i>	<i>299</i>
Why financial situation has got better			
Need fewer things	37	36	36
More money	32	29	30
Both the above	8	9	9
Other reason	22	26	24
<i>Unweighted base</i>	<i>92</i>	<i>102</i>	<i>194</i>

Base: Families on Income Support.

When asked *why* their situation had got worse, Social Fund customers were more likely to say it was because they needed to buy more things, while other Income Support recipients were more likely to say it was because they had to manage on less money than before (Table 4.13). Thus, 44 per cent of the Social Fund customers who said their financial situation had deteriorated, said it was because they needed to buy more than before, while 33 per cent said it was because they were managing on less money. By comparison, only 27 per cent of non-customers said their financial situation had deteriorated because they needed to buy more things, but 49 per cent said it was because they were managing on less money. Among those whose financial situation had improved over the past six months, there was no statistically significant difference between Income Support recipients who were Social Fund customers and those who were not. Roughly similar proportions reported their situation had improved because they needed fewer things, because they had more money, or because of some other reason (Table 4.13).

Finally, there was a significant relationship between the degree of financial hardship that Income Support recipients were experiencing and whether or not they were making use of Social Fund loans to get by. (The design of the hardship measure is discussed in Chapter 6.) Social Fund customers were significantly more likely to be

experiencing severe hardship than other Income Support recipients. Conversely, they were less likely not to be experiencing hardship. Thus, 35 per cent of Social Fund customers were estimated to be experiencing hardship in 2002, compared with 25 per cent of non-customers. Meanwhile, 20 per cent of customers were not experiencing hardship, compared with 34 per cent of other Income Support recipients. Roughly similar proportions were estimated to be in moderate hardship (Table 4.14).

Table 4.14 Hardship

	<i>Column percentages</i>		Total
	Social Fund customer?		
	Yes	No	
No hardship	20	34	27
Moderate hardship	45	41	43
Severe hardship	35	25	30
<i>Unweighted base</i>	542	618	1160

Base: Families on Income Support.

4.6 Repeat versus one-off loan applicants

The final part of the chapter compares the characteristics and circumstances of repeat and one-off loan applicants. For the purpose of this analysis, repeat applicants are families that applied for a Social Fund loan in at least two of the three years from 2000 to 2002. One-off applicants are families that applied only once during this period. The analysis refers to the characteristics of families in 2001, but of course families change over time. Chapter 5 explores the association between Social Fund loan applications and changes in family circumstances between the different waves of the FACS survey.

In fact, there were many similarities between these two groups of loan applicant. In other words, there was relatively little to distinguish families that applied on just one occasion and those who applied two or three times over the three year period. However, there were some statistically significant differences between them, even if many of these were not very large. Consequently, the focus here is on those characteristics and circumstances where there were statistically significant differences between these two groups.

One important difference between repeat and one-off applicants is that the former were significantly more likely to be lone parents and less likely to be couples in 2001. For example, 15 per cent of repeat applicants were couples compared with 23 per cent of one-off applicants. Repeat applicants also tended to have more children than one-off applicants (Table 4.15).

Table 4.15 Repeat vs. one-off loan applicants: characteristics

	<i>Column percentages</i>	
	Repeat applicant	One-off applicant
Relationship status		
Lone parent	85	77
Couple	15	23
<i>Unweighted base</i>	332	307
Number of dependent children		
One	34	44
Two	40	31
Three or more	26	25
<i>Unweighted base</i>	332	307
Housing tenure		
Owner-occupier	2	11
Social tenant	81	80
Private tenant	17	8
<i>Unweighted base</i>	332	306

Base: Families on Income Support that had applied for a loan.

There were also significant differences in housing tenure between repeat and one-off applicants for Social Fund loans. Similar proportions of each group were living in social rented housing in 2001: 81 per cent and 80 per cent respectively. But repeat applicants included a very high proportion of private tenants and a relatively small proportion of owner-occupiers when compared with the one-off applicants. Thus, 17 per cent of repeat applicants were private tenants, compared with eight per cent of one-off applicants. Only two per cent of repeat applicants were owner-occupiers compared with 11 per cent of families that had applied only once for a loan over this three year period (Table 4.15).

There were also some significant differences in the financial situation of repeat and one-off applicants. Repeat applicants were less likely than one-off applicants to have a current or savings account (43 per cent compared with 53 per cent respectively). We saw earlier in the chapter that one of the important differences between families on Income Support that were Social Fund customers and those that were not, was whether they had savings. Families with savings were less likely to apply for a loan. The ability to save was also one of the factors on which repeat and one-off applicants differed. Repeat applicants less often had money over at the end of the week, which implies that they had less scope to save money. In fact, a smaller proportion of repeat applicants (8 per cent) than of one-off applicants (13 per cent) did indeed report that they saved regularly (Table 4.16).

Table 4.16 Repeat vs. one-off loan applicants: saving

	<i>Column percentages</i>	
	Repeat applicant	One-off applicant
Respondent or partner has current or savings account		
Yes	43	53
No	57	47
<i>Unweighted base</i>	332	307
Saves regularly		
Yes	8	13
No	92	87
<i>Unweighted base</i>	332	307
How often has money over at end of week		
Always	3	3
Most weeks/months	3	7
More often than not	2	6
Sometimes	19	20
Hardly ever	35	29
Never	39	36
<i>Unweighted base</i>	331	305

Base: Families on Income Support that had applied for a loan.

Repeat loan applicants also reported more trouble with debts than those who applied only once in the three years from 2000 to 2002. One-off applicants were significantly more likely than repeat applicants to say that they never had trouble with debts that were hard to repay. A quarter (26 per cent) of one-off applicants said this, compared with only one in six (16 per cent) repeat applicants (Table 4.17). However, the financial situation of repeat applicants was less likely to have changed over the previous six months than was the case for one-off applicants. Sixty-three per cent of repeat applicants said their situation had stayed the same, compared with 51 per cent of families that had applied only once for a Social Fund loan. Where it had changed, for repeat applicants it was more likely to have got worse (21 per cent) than to have got better (16 per cent), whereas for one-off applicants approximately equal proportions had got worse (24 per cent) or better (25 per cent).

Finally, there was a higher degree of overall hardship among repeat applicants than among one-off applicants. Thirty-seven per cent of repeat applicants were estimated to be experiencing severe hardship, compared with 28 per cent of one-off applicants. Whereas only 18 per cent of repeat applicants were experiencing no hardship, the same was true of 27 per cent of families that had applied only once for a loan over the three years (Table 4.17).

Table 4.17 Repeat vs. one-off loan applicants: financial situation

	<i>Column percentages</i>	
	Repeat applicant	One-off applicant
How often had trouble with debts that were hard to repay		
Almost all the time	17	16
Quite often	24	21
Only sometimes	43	38
Never	16	26
<i>Unweighted base</i>	332	307
How financial situation has changed during past six months		
Got worse	21	24
Got better	16	25
Stayed the same	63	51
<i>Unweighted base</i>	332	307
Hardship		
No hardship	18	27
Moderate hardship	46	46
Severe hardship	37	28
<i>Unweighted base</i>	287	273

Base: Families on Income Support that had applied for a loan.

So far the extent to which repeat and one-off applicants differ has been examined using cross-tabulations, comparing one factor at a time. However, these factors can be examined together and the influence of each factor estimated, independently of all other factors, using logistic regression. As noted in Chapter 3, logistic regression is a multi-variate statistical technique that estimates the importance of each factor affecting the dependent variable, which in this case is whether a family is a repeat applicant or not. This analysis found that the odds of a family being a repeat (as opposed to a one-off) applicant for a Social Fund were higher for families: -

- headed by a lone parent
- that never or hardly ever had money over at the end of the week/month
- with no savings and two or more debts (Table A1, Appendix 2).

4.7 Conclusions

Social Fund customers were in many respects significantly different from non-customers in 2002. Compared with other Income Support recipients, Social Fund customers were more likely to be lone parents, under 25, and tenants (especially social housing tenants). These are all risk factors for being on Income Support. The age of the youngest child in the family was also younger among Social Fund customers than among other Income Support recipients.

In addition, Social Fund customers were less likely than non-customers to have money over at the end of the week, to have a current or savings account, and to have savings. They were more likely to have debts, to have trouble repaying debts, to be in arrears on their mortgage, and to be behind with other household bills. Not surprisingly, therefore, they were also more likely to have worried about money much of the time and to report having difficulty managing their finances. Social Fund customers were also more likely to be experiencing hardship.

Repeat applicants to the Social Fund shared many of the same characteristics as those who were one-off applicants over the three years from 2000 to 2002. However, there were some significant differences, which suggests they were not essentially the same types of family. Compared with one-off applicants, repeat loan applicants were more likely to be lone parents, were less likely to have only one child, were more likely to be private tenants, were less likely to have a current or savings account, were less likely to save regularly, and were more likely to be experiencing financial hardship.

5 WHAT TRIGGERS A SOCIAL FUND LOAN APPLICATION?

5.1 Introduction

Previous studies that have investigated the reasons why families with children apply for the Social Fund have found a change in circumstances to be important (e.g. Huby and Dix, 1992; Cohen *et al.*, 1996). These studies, however, are qualitative in nature and little quantitative research has been undertaken on the reasons behind applications. This chapter aims to fill this gap by looking at what events are associated with (trigger) an application for a Social Fund loan. We will also consider how a change in circumstances affects lone parents compared to couple parents and those with savings compared to those without.

5.2 Events potentially associated with Social Fund loan applications

In this chapter, we consider sixteen events that may potentially trigger a Social Fund loan application. These have been identified partly from the previous qualitative studies, partly through analysis of the characteristics of those applying for a Social Fund loan (see Chapter 4) and partly through *a priori* reasoning. These events are not mutually exclusive - i.e. they can occur simultaneously. For example, falling into debt can occur at the same time as having a baby, or a child could turn three at the same point as a house move. Also, some events are overlapping - for example having a baby and an increase in the number of dependent children. Our approach to this analysis draws upon the work of Jenkins and Rigg (2001) who analysed movements into and out of poverty.

The events included in our analysis are:

Child life stage events

- *Having a baby* can instigate a need for new items such as clothes; a cot etc., especially if he/she is the first child.
- *A child reaching age 3* can instigate a need for new items because the child may need a bed (instead of a cot) or shoes as they become more independently mobile.
- *A child starting school* instigates the need for a school uniform.
- *A child starting secondary school* may instigate a need for a school uniform.
- *A child ending compulsory school education* is a trigger depending upon the circumstances of the child. If the child moves into further education this will often be at a cost to their parents (i.e. greater hardship), and could also instigate the need for new items such as clothing.

Family change events

- *Separation* (becoming a lone parent), potentially instigates a need for new lumpy items that previously may have been shared but also potentially leads to poverty with the move into a sole earner or workless household.
- *Partnering* may bring with it an increase in the number of children in the household and thus lead to a redistribution of income and also an increased need for certain lumpy items.
- *An increase in the number of dependent children* incorporates both having a baby and older children moving into the household. Both could instigate a need for new items as well as a change in hardship status.
- *A decrease in the number of dependent children* incorporates both children leaving the household but also the death of a child. Whilst a child leaving the household, and indeed the death of a child in the long term, can lead to increased disposable income, the death of a child in the short term can lead to financial hardship.

Housing events

- *Moving house* may instigate a need for a variety of lumpy items, and items for decoration such as carpets etc.
- *Changing tenure* may instigate a need for certain lumpy items but this depends on the type of tenure change – i.e. a move from furnished to unfurnished property will increase the need for lumpy items.

Health events

- *An adult developing a limiting illness or disability* brings with it a need for certain specific items to avoid discomfort.
- *A child developing (or being born with) a limiting illness or disability.*
- *Decrease in the number of children with a limiting illness/disability* can mean that a child has regained health (or at least no longer has a *limiting* illness/disability), which may decrease financial hardship but it can also mean that a child has died, which may, in the short term lead to greater financial hardship.

Income events

- *Falling into debt* (excluding deductions from Income Support for Social Fund loans) may trigger an application because the money used to pay off the debt is no longer available to buy certain lumpy items.
- *Becoming eligible to apply for a Social Fund loan.* Those families on Income Support for six months are eligible to apply for a Social Fund loan. This variable enables us to investigate whether the fact that families are now eligible to apply triggers an application.

5.3 Assessing the importance of events as triggers: Methods

In this chapter, we are concerned with the events that may be important for triggering a Social Fund loan application. Importance can be assessed in different ways. In our analysis, we have adopted two different methods to analyse the association of each event with making a Social Fund loan application:

- Method 1: What is a family's chances of making (or not making) a Social Fund loan application if they experience a particular event?
- Method 2: What proportion of all the Social Fund loan applications amongst families with children is attributable to particular events?

5.3.1 Method 1

The first method is focused on the individual. It investigates the likelihood of a respondent making a Social Fund loan application if they experience a certain event. An event is important in this context if the associated probability of making a Social Fund loan application is relatively high. It therefore looks at the importance of each event from the point of view of the individual 'at risk' of making a Social Fund loan application.

We have used two statistics to investigate probability: bivariate analysis (rate) and logistic regression (odds). The first is a more realistic statistic since it enables events to occur simultaneously, but it is limiting in the sense that it does not enable us to look at the importance of each event in isolation from other events. An event is important if it is significant and the rate is high. Logistic regression enables us to look at the odds of making a Social Fund loan for someone experiencing an event whilst holding all other events constant. An event is important by this measure if it is significant and the odds are high. We have presented both statistics in order to analyse the importance of events when they occur simultaneously with other events and also to assess the importance of each as a mutually exclusive trigger.

5.3.2 Method 2

The second method refers to the share of all Social Fund loan applications that is accounted for by each event. An event is important if it accounts for a relatively high share of all Social Fund loan applications. This method provides an aggregate perspective on the importance of each event.

Both methods are important, but the second method incorporates both the first method – the probability of making a Social Fund loan application – and also the prevalence of an event for those on Income Support. In other words, an event can account for a relatively high share of Social Fund loan applications if the event is relatively frequent, or if the chances of making a Social Fund loan application is relatively high among those experiencing the event. We shall therefore look at

prevalence of each event in addition to each event as the proportion of all Social Fund applications.

All analysis has been undertaken using the Families and Children Study (FACS). We have investigated the association between an event occurring in one year with an application for a Social Fund loan in the subsequent year. Due to small numbers for some events, we have pooled data in order to make analysis feasible. This was undertaken by merging two datasets. The first included triggers occurring between 2000 and 2001, which were related to an application for a Social Fund loan in the second year (2001). The second included triggers occurring between 2001 and 2002, which were related to an application for a Social Fund loan in the second year (2002). For each dataset, those interviewed in both the trigger and application year and those on Income Support in the application year were sampled. The two data sets were then pooled and the analysis carried out. The data was not weighted. Jenkins and Rigg (2001) similarly pooled ten years of data from the British Household Panel Survey to analyse poverty triggers.

It would have been useful to undertake analysis looking at the association of an event occurring in one year with an application for a Social Fund loan in the same year. However, it is not possible to ascertain from the FACS data precisely when during the year certain events occurred. Consequently, it would not have been possible to know whether an application to the Social Fund occurred before or after the potential trigger event. Hence, change could only be identified between one survey and the next.

5.4 Trigger events for all Income Support recipients

We first identified what events trigger an application among the overall population of Income Support recipients using bivariate analysis, as presented in Table 5.1. The first column gives the prevalence - the percentage of all Income Support recipients experiencing the event. The second column shows the rate (method 1, individual measure) - the percentage of all those experiencing the event who made a Social Fund loan application. The third column shows the share (method 2; aggregate measure) - the proportion of all those making a Social Fund loan application experiencing an event.

Events were only considered to be triggers if statistically significant. We can see that there were three significant events, which triggered an application for a Social Fund loan. These were:

- a child reaching three years of age
- a child reaching school age (5 years)
- moving house.

The child stage life events were, as a group, the most important triggers for a Social Fund loan application. Income events and health events were the least important - with neither being significant triggers.

Moving house was associated with the largest share of Social Fund loan applications (21 per cent) in the following year. Indeed, moving house is an event that triggers a felt need (Bradshaw, 1972) for a wide range and number of items. The large share of applications was partly related to the prevalence of moving house - it was the event most likely to occur amongst Income Support recipients (16 per cent). However, the percentage of those moving house that made an application was significantly higher than the proportion of Income Support recipients who made an application (50 per cent compared to 38 per cent). This demonstrates the importance of moving house as a trigger both at the aggregate and individual level.

The fact that moving house was so frequent among Income Support recipients is perhaps surprising. But moving house was significantly related to many different events: having a baby; a child turning three; a child starting school; a change in tenure; separating; partnering and becoming eligible for a Social Fund Loan. Frequent house moves are also related to living in social housing. Keenan (1998) showed a neighbourhood effect whereby people in social housing moved several times a year as a result of neighbourhood decline and the associated anti-social behaviour.

Having a child reaching three years of age or a child starting school in the household, were both important triggers, as demonstrated by the high share of Social Fund applications associated with these events (15 per cent and 12 per cent respectively). These events were both relatively prevalent and important at an individual level: nearly half of Income Support recipients who had experienced these events made an application for a Social Fund loan.

It is perhaps surprising that having a baby was not a significant trigger. We might expect that this event would trigger a need for a variety of one off lumpy items, such as a cot, but also to bring with it ongoing costs, such as nappies. The insignificant result could be due to small numbers. But it may be that people expecting a baby budget and plan more carefully than those experiencing other trigger events and thus avoid a need for a Social Fund application.

A child ending compulsory education and a decrease in the number of children were both significant. But a lower proportion than average experiencing these events made an application for a Social Fund loan (29 per cent and 28 per cent respectively). In other words, experiencing these events was associated with a lower likelihood of making an application for a Social Fund loan. These events overlap in that a child ending compulsory education automatically would result in a decrease in

the number of dependent children. However, a decrease in the number of children could also indicate the death of a child.

Table 5.1 The association between triggers and making a Social Fund loan

Events	Prevalence (% of all Income Support recipients experiencing event)	Method 1: Rate (% of all Income Support recipients experiencing event making an application)	Method 2: Share (% of all those making an application who have experienced an event)	Significance (chi square)
Child stage life events				
New baby	6	40	6	
Child reaching age 3	12	48	15	**
Child starting school ¹	10	46	12	*
Child starting secondary education ²	11	34	9	
Child ending compulsory education ³	8	29	6	**
Family change events				
Increase in the number of dependent children	9	35	8	
Decrease in the number of dependent children	11	28	8	**
Partnering	[2]	[37]	[2]	
Separating	6	[37]	[6]	
Housing events				
Moving house	16	50	21	***
Changing tenure	9	38	9	
Health events				
Increase in the number of ill/disabled children	6	42	6	
Decrease in the number of ill/disabled children	6	45	6	
Respondent developing limiting illness/ disability	8	41	9	
Income events				
Becoming eligible for Social Fund	7	[34]	[6]	
Falling into debt	12	39	12	
All Income Support recipients	100	38	100	
<i>Unweighted base</i>	<i>2108</i>	<i>807</i>	<i>807</i>	

¹Reaching age 5; ² Reaching age 11; ³ Reaching age 16;

Events that are statistically significant are indicated by one or more asterisks: * < 0.05; ** < 0.01; *** < 0.001

Base: Respondents interviewed in both trigger and application year and on Income Support in application year.

From both the aggregate and individual perspective becoming eligible to apply for a Social Fund loan in the following year was *not* a significant trigger. A lower

proportion (34 per cent) than average experiencing this event made an application. This suggests that either Income Support recipients wait before making an application, such as when their savings are depleted, or that they are not initially aware that they may be eligible for a loan.

These trigger events can occur simultaneously; they are not mutually-exclusive. Bivariate analysis is realistic in the sense that it allows for events to occur simultaneously but it does not allow us to investigate the importance of each event as a trigger in isolation from other events. We have used logistic regression to look at the odds of making a Social Fund loan whilst experiencing an event, holding all other events constant.

Table A2 in Appendix 2 shows the most 'parsimonious' model. Other events not included in the model were significant triggers but there was multi-collinearity (i.e. correlation) between certain variables, such as moving house and change in tenure. Therefore only one of these variables has been included in the model.

Events that increased the odds of making a Social Fund loan application were:

- *Moving house*: Families moving house were 70 per cent more likely to make an application compared to those who did not move house.
- *Child reaching three years of age*: Families with a child reaching three years were 45 per cent more likely than those not having a baby to make a Social Fund loan application.
- *Child starting school (5 years)*: Families with a child starting school were 38 per cent more likely to make an application than those without a child starting school.

Events that lowered the odds of making a Social Fund loan application were:

- *A decrease in the number of children*: Families with a decrease in the number of children were 37 per cent less likely to make an application to a Social Fund loan.

These results generally reflect the bivariate analysis, which suggests that these events are triggers both when occurring simultaneously with other events and when occurring in isolation.

5.5 Trigger events for lone parents compared to couple parent families

Chapter 3 demonstrated that lone parents were more likely than couple families to be Social Fund customers. It is therefore important to investigate whether lone parents experience different and/or a greater number of triggers compared to couple parents.

Table 5.2 shows the trigger events for lone parent families. The following were significant triggers:

- child reaching three years of age
- child starting school (5 years)
- moving house.

The triggers for lone parents reflect those for Income Support recipients as a whole. According to the aggregate measure, moving house was the most important trigger for lone parents, making up 21 per cent of all Social Fund loan applications. However, this was partly due to a high prevalence rate (17 per cent), but also a relatively high application rate (51 per cent).

According to the aggregate measure, a child reaching three years of age and a child starting school (5 years) were important triggers (14 and 12 per cent respectively). Both events were important according to the individual measure (48 per cent of all lone parent Income Support recipients experiencing these events applied for a Social Fund loan).

An increase in the number of ill/disabled children (47 per cent) appeared to be important according to the individual measure, but is not statistically significant. This could be due to small numbers. The application rate for this event was also higher compared to the whole population of Income Support recipients: 47 per cent of lone parents compared to 42 per cent of all Income Support recipients experiencing this event made an application for a Social Fund loan. This indicates the vulnerability of lone parents: that a child developing or being both with a limiting illness/disability is more likely to push an already vulnerable lone parent into (further) hardship. Indeed, a decrease in the number of children with a limiting illness/disability is likely to indicate the death of a child, rather than the child becoming well again, although this is not certain. Previous research on the death of an ill/disabled child (Corden *et al.*, 2001) highlighted the financial hardship that these families face in the short term with loss of certain benefits and therefore a decrease in income available to pay for lumpy items.

Table 5.2 The association between triggers and making a Social Fund loan for lone parent families in any year

Events	Prevalence	Applied for Social Fund loan	Share of all Social Fund applications associated with event	Significance
Child life stage events				
New baby	6	[42]	[6]	
Child reaching age 3	12	48	14	*
Child starting school ¹	10	48	12	*
Child starting secondary school ²	10	34	9	
Child ending compulsory education ³	7	33	6	
Family change events				
Increase in dependent children	9	39	9	
Decrease in dependent children	9	[31]	[7]	*
Separating	7	[37]	[7]	
Housing events				
Moving house	17	51	21	***
Changing tenure	9	43	10	
Health events				
Increase in the number of ill/disabled children	5	[47]	[6]	
Decrease in the number of ill/disabled children	5	[44]	[6]	
Respondent developing limiting illness/disability	8	46	9	
Income events				
Becoming eligible for Social Fund	7	[36]	[6]	
Falling into debt	13	40	12	
All lone parents on Income Support	100	41	100	
<i>Unweighted base</i>	<i>1679</i>	<i>683</i>	<i>683</i>	

¹ Reaching age 5; ² Reaching age 11; ³ Reaching age 16

Events that are statistically significant are indicated by one or more asterisks: * < 0.05; ** < 0.01; *** < 0.001

Base: Respondents interviewed in both trigger and application year and on Income Support in application year.

For couple parents, the numbers making a Social Fund loan application were very small and therefore the analysis must be treated with caution. Table 5.3 demonstrates that the only significant trigger was:

- A child reaching three years of age.

If a child had reached three years of age, this was likely to trigger a Social Fund loan application in the following year. According to the aggregate measure, 19 per cent of all Social Fund loan applications made by couples were related to a child reaching three years of age. Indeed, this event was important at the individual level (46 per cent) - a high proportion of couples experiencing the event made an application.

Generally, the bivariate analysis suggested that for couple parents more than for lone parents, a change in circumstances was less likely to trigger a Social Fund loan application.

Table 5.3 The association between triggers and making a Social Fund loan for couple parent families in any year

Events	Prevalence	Applied for Social Fund loan	Share of all Social Fund applications associated with event	Significance
Child life stage events				
New baby	[6]	[29]	[6]	
Child reaching age 3	[13]	[46]	[19]	*
Child starting school ¹	[12]	[37]	[15]	
Child starting secondary school ²	[13]	[32]	[14]	
Child ending compulsory education ³	[13]	[19]	[8]	
Family change events				
Increase in dependent children	[12]	[21]	[8]	
Decrease in dependent children	17	[23]	[13]	
Partnering	[14]	[37]	[16]	
Housing events				
Moving house	15	[42]	[20]	
Changing tenure	[10]	[19]	[6]	
Health events				
Increase in the number of ill/disabled children	[11]	[30]	[10]	
Decrease in the number of ill/disabled children	[6]	[48]	[9]	
Respondent developing limiting illness/ disability	[9]	[24]	[7]	
Income events				
Becoming eligible for Social Fund	[8]	[30]	[8]	
Falling into debt	[12]	[35]	[14]	
All couple parents on Income Support	100	31	100	
<i>Unweighted base</i>	<i>361</i>	<i>110</i>	<i>110</i>	

¹ Reaching age 5; ² Reaching age 11; ³ Reaching age 16

Events that are statistically significant are indicated by one or more asterisks: * < 0.05; ** < 0.01; *** < 0.001

Base: Respondents interviewed in both trigger and application year and on Income Support in application year.

Using logistic regression to look at each event whilst controlling for all other events, we can see that there was some overlap in the kinds of events that triggered a Social Fund loan application for lone parents compared to couples (see Tables A3 and A4 in Appendix 2).

Events that increased the odds of an application:

- *Moving house*: This was a trigger for lone parents but not for couple parents. Lone parents moving house were 64 per cent more likely to make an application compared to those who did not moving house.
- *A child reaching three years of age*: Couple families with a child reaching three years were over twice as likely as those without a child reaching this age to make an application.

For both lone parents and couples, a child reaching three years of age was significantly associated with moving house, although this association was stronger for couples than for lone parents. Whilst a child reaching three years of age is likely to spark the need for some lumpy items, moving house is likely to generate a need for a wide variety of lumpy items. Therefore, these two events occurring simultaneously were more likely to generate an application for a Social Fund loan.

Events that decreased the odds of an application:

- *A decrease in dependent children*: Lone parents with a child starting secondary school were 37 per cent less likely to make an application than those without a child starting school. However, this was not significant for couple families.

5.6 Families without savings compared to those with savings

Income Support recipients with savings may be protected from hardship, and thus a need for a Social Fund loan application, since they are able to fall back on their savings in times of need. Those without, however, will have no such personal safety net if a need arises. We have seen in Chapter 4 that Income Support recipients with savings are less likely to make an application for a Social Fund loan than those without. It is therefore useful to know whether certain events trigger an application for those without savings more readily than for those with savings.

Table 5.4 shows the triggers for those without savings. These were:

- child reaching three years of age
- child starting school (5 years)
- moving house.

These are almost the same as the triggers for the whole population of Income Support recipients. But, compared to all Income Support recipients, the triggers were more important for individuals without savings; a higher proportion of those who experienced these events made a Social Fund loan application. Fifty-three per cent of Income Support recipients without savings made an application if a child reached three years of age; a child started school or they moved house compared to 42 per cent of all Income Support recipients.

Table 5.4 The association between triggers and making a Social Fund loan for families with no savings in any year

Events	Prevalence	Applied for Social Fund loan	Share of all Social Fund applications associated with event	significance
Child life stage events				
New baby	7	[41]	[6]	
Child reaching age 3	13	53	15	**
Child starting school ¹	10	53	12	*
Child starting secondary school ²	11	37	9	
Child ending compulsory education ³	8	[33]	[6]	*
Family change events				
Increase in dependent children	10	37	9	
Decrease in dependent children	12	32	9	**
Partnering	[3]	[46]	[3]	
Separating	6	[38]	[6]	
Housing events				
Moving house	17	53	21	***
Changing tenure	9	41	9	
Health events				
Increase in the number of ill/disabled children	6	[46]	[6]	
Decrease in the number of ill/disabled children	5	[51]	[6]	
Respondent developing limiting illness/ disability	8	48	9	
Income events				
Becoming eligible for Social Fund	7	[36]	[6]	
Falling into debt	12	42	12	
Income Support recipients without savings	100	43	100	
<i>Unweighted base</i>	<i>1587</i>	<i>686</i>	<i>686</i>	

¹ Reaching age 5; ² Reaching age 11; ³ Reaching age 16

Events that are statistically significant are indicated by one or more asterisks: * < 0.05; ** < 0.01; *** < 0.001

Base: Respondents interviewed in both trigger and application year and on Income Support in application year.

The numbers applying for a Social Fund loan with savings were very small and therefore the analysis must be treated with caution. With that qualification in mind, Table 5.5 shows that for Income Support recipients with savings there was only one significant trigger:

- Moving house.

According to the aggregate measure, this trigger was important - a fifth of all Social Fund applications by Income Support recipients with savings were attributed to this event. This was partly due to a relatively high prevalence (13 per cent) but also a high application rate: according to the individual measure, 38 per cent of all those who experienced this event made an application. Indeed, this is compared to 53 per

cent of those without savings who experienced this event and 50 per cent of all Income Support recipients. So, moving house was a trigger for recipients with savings but it was a relatively unimportant one compared to those without savings.

Table 5.5 The association between triggers and making a Social Fund loan for families with savings in any year

Triggers	Prevalence	Applied for Social Fund loan	Share of all Social Fund applications associated with event	Significance
Child life stage events				
New baby	[4]	[35]	[6]	
Child reaching age 3	10	[28]	[12]	
Child starting school ¹	11	[26]	[12]	
Child starting secondary school ²	11	[22]	[10]	
Child ending compulsory education ³	[8]	[16]	[6]	
Family change events				
Increase in dependent children	[7]	[26]	[7]	
Decrease in dependent children	[9]	[12]	[5]	
Partnering	[2]	[0]	[0]	
Separating	[5]	[32]	[7]	
Housing events				
Moving house	13	[35]	[20]	*
Changing tenure	[9]	[29]	[12]	
Health events				
Increase in the number of ill/disabled children	[6]	[29]	[8]	
Decrease in the number of ill/disabled children	[6]	[28]	[7]	
Respondent developing limiting illness/ disability	[9]	[22]	[8]	
Income events				
Becoming eligible for Social Fund	[6]	[24]	[6]	
Falling into debt	12	[28]	[15]	
Income Support recipients with savings	100	23	100	
<i>Unweighted base</i>	521	121	121	

¹ Reaching age 5; ² Reaching age 11; ³ Reaching age 16

Events that are statistically significant are indicated by one or more asterisks: * < 0.05; ** < 0.01; *** < 0.001

Base: Respondents interviewed in both trigger and application year and on IS in application year.

Those with savings experienced the same events as those without savings (to a lesser or greater degree). However, it appears that those with savings were buffered from the negative effects of these events. As a result, fewer events triggered a Social Fund loan application compared to those without savings.

Looking at these events in isolation from other events using logistic regression analysis (see Tables A5 and A6 in Appendix 2 for the models) shows that those without savings experienced a greater number of triggers than those with savings:

- *A child starting school*: Families without savings with a child starting school were 50 per cent more likely than those without a child starting school.
- *Moving house*: Families without savings who moved house were 61 per cent more likely than those who did not move house to make a Social Fund loan application. However, families with savings who moved house were 95 per cent more likely than those who did not move house to make a Social Fund loan application. This was the only trigger for those with savings.
- *A child reaching three years of age*: Families without savings were 46 per cent more likely to make a Social Fund loan application if they had a child in the household reaching three years of age compared to those who didn't.

Events that decreased the odds of an application:

- *A decrease in dependent children*: Families without savings with a decrease in the number of dependent children were 41 per cent less likely to make an application than those without a decrease.
- *A increase in dependent children*: However, families without savings were also 32 per cent less likely to make an application if they experienced an increase in the number of dependent children compared to those who did not.

5.7 Conclusions

In this chapter we have used two methods to investigate what triggers an application for a Social Fund loan. We have seen that whilst there are similarities between method 1 (the individual measure) and method 2 (the aggregate measure), we need to take prevalence into account when assessing the importance of each event. An event may be important on an individual level, even if a small proportion experience the event. Also, an event may not be important at the individual level, but because it is relatively prevalent it may make up a high proportion of Social Fund loan applications.

Having said this, we have found that there are a number of significant events that trigger a Social Fund loan application for the overall population of Income Support recipients: a child reaching three years of age, a child starting school, and moving house. These events bring with them specific felt needs that may spark an application for a Social Fund loan. It is perhaps surprising that having a baby does not trigger an application, but nevertheless the analysis shows that the (felt) need for lumpy items arises as children experience certain life events such as reaching school age.

We have also seen that couple parents and families with savings on Income Support are to some extent protected from the negative affects of certain events. As a result, couple parents compared to lone parents, and families with savings compared to

those without, are less likely to make an application for a Social Fund loan and fewer events act as triggers for these two groups.

6 SOCIAL FUND LOANS AND HARDSHIP AND DEPRIVATION

6.1 Introduction

This chapter considers the outcome of repaying a Social Fund loan and, in particular, whether it is associated with *change* in the level of hardship. On the one hand repaying a Social Fund loan decreases income and therefore may lead to increased hardship, especially because those repaying the loan already have a low income. On the other hand, those with a Social Fund loan have access to an interest free loan, whereas those without one might be driven towards high interest alternatives and thus fall (deeper) into hardship as a result. Obviously repaying a Social Fund loan is only one potential contributor to change in hardship between one year and the next; hence other factors might be important in causing such change. But to investigate these other factors is beyond the scope of this research. We investigate the association between repaying a Social Fund loan in one year and any subsequent change in hardship and deprivation the following year, comparing those repaying a Social Fund loan with those not repaying a loan.

6.2 Measuring hardship

The measurement of hardship and deprivation is arbitrary and various methods have been adopted in previous studies: relative income measures; absolute income methods; socially defined measures etc. None can be considered to be a right or wrong measure. In this report we use an index to summarise hardship, which has been used in previous studies analysing the Families and Children Study (FACS). The index includes a mixture of both absolute (e.g. not being able to afford heating) and more relative measures, which have been changed and developed over the survey years. For continuity, we have employed the same index and thresholds as used in 2002 by the Policy Studies Institute (Vegeris and Perry, 2003), which uses nine indicators to measure both social and financial hardship. These are:

- Worries about money almost all the time and runs out of money most weeks.
- Has no bank account and has two or more debts.
- Reports two or more problems with accommodation and is unable to afford repairs if a homeowner.
- Lived in overcrowded accommodation.
- Cannot afford to keep home warm.
- Has a relative material deprivation score on food items in the highest 7.5 per cent.
- Has a relative material deprivation score on clothing items in the highest 7.5 per cent.
- Has a relative material deprivation score on consumer durables in the highest 7.5 per cent.

- Has relative material deprivation score on leisure activities in the highest 7.5 per cent.

The one difference from the Policy Studies Institute measure is that we have necessarily excluded having a Social Fund loan as one of the debts that count towards the hardship score. We consider each indicator separately under three general areas of hardship - family finances (including debts and savings), housing conditions and relative material deprivation. We explore whether repaying a Social Fund loan in one year is associated with change in hardship over the following year. The above indicators are used to measure this, but also some additional indicators are included. In the final section, the indicators from each area are combined to create an index of overall hardship. We then explore the association between repaying a Social Fund loan and change in the overall hardship measure.

All analysis has been undertaken using the FACS survey. We have investigated the association between repaying a Social Fund loan in one year with change in hardship/deprivation between that year and the subsequent year. Due to small numbers, to make analysis feasible we have pooled data. This was undertaken by putting together two datasets. The first included hardship/deprivation change between 2000 and 2001, which was related to repaying a Social Fund loan in the first year (2000). The second included hardship/deprivation change between 2001 and 2002, which was related to repaying a Social Fund loan in the first year (2001). For each data set, those interviewed in both years were sampled and, in order to ensure that a move into employment was not the reason for a change in hardship or deprivation level, respondents also had to be on Income Support in both years. The two data sets were then pooled and the analysis carried out. Because the data for three years was pooled in this way, it was analysed without weights.

6.3 Family finances

Managing finances requires families to balance income with expenditure. Families repaying a Social Fund loan may find it more difficult to do this compared to those not repaying a Social Fund loan since they have to balance repaying a debt with everyday expenses and savings. However, since the loan is interest free, they may be able to manage their finances better than those with other types of loans or if they had no help at all. Also, the fact that the loan repayment is deducted directly from their Income Support payment may enable them to better manage their finances. But managing debt is a balancing act, and if repaying a Social Fund loan negatively affects a family's ability to save or increases their levels of debt, this could lead to (greater) hardship.

We examined whether there was any relationship between change in family finances and repaying a Social Fund loan. If a Social Fund loan was being paid, we investigated change in hardship over the next year. We explored both respondents'

self reported change in financial circumstances as well as change in savings and debts.

6.3.1 How does repaying a loan relate to families’ ability to manage financially?

Respondents were asked whether they considered themselves to be managing financially. This subjective measure was not included in the hardship index but is useful since it captures how a family is coping financially, or at least how they feel they are coping. We can see from Table 6.1 that those repaying a Social Fund loan differed significantly from those not repaying a Social Fund loan in terms of changes in whether they felt they were managing or not. Those repaying a Social Fund loan were more likely to report a change (36 per cent) compared to those not repaying a Social Fund loan (29 per cent), and the direction of change was most likely to be from feeling that they were not managing in the year they were repaying the Social Fund loan to feeling that they were managing (27 per cent) in the year after. In other words, those repaying a Social Fund loan were more likely to feel that their situation had got better compared to those not repaying a Social Fund loan.

Table 6.1 Change in financial position by whether repaying a loan in the previous year

Change	Column percentages	
	Not repaying a loan	Repaying a loan
Not managing to managing	23	27
Managing ¹ to not managing ²	[6]	[9]
No change	71	64
<i>Unweighted base</i>	661	432

¹ Managing - manage very well/manage quite well/get by alright.

² Not managing - don't manage very well/have some financial difficulties/are in deep financial trouble.

Base: Respondents interviewed in both years analysed and on IS in both years.

6.3.2 How does repaying a loan relate to families’ ability to save?

A summary indicator is used in the hardship index to measure ability to save, by combining whether they worry about money almost all the time and whether they run out of money most weeks. This measure assumes that a family’s ability to save depends upon whether they have money left at the end of the week, but also upon whether they worry about money, which could affect whether they do actually save. We explored the relationship between repaying a Social Fund loan and change in this summary measure.

Table 6.2 shows evidence that there is a relationship between repaying a Social Fund loan and a change in a family’s ability to save, according to the summary measure. For those repaying a loan, the analysis indicates that repaying a loan was more likely to have a positive impact than a negative one - 13 per cent of those repaying a loan shifted from always running out of and worrying about money to having money left at the end of the week and not worrying about money in the year following the loan repayment, compared to 10 per cent who shifted from having money left at the end of the week and not worrying about money to always running out of and worrying about money the following year.

Table 6.2 Ability to save by whether repaying a loan in the previous year *Column percentages*

Change	Not repaying a Social Fund loan	Repaying a Social Fund loan
Runs out/worries to doesn't worry/run out	9	13
Doesn't worry/run out to runs out/worries	9	10
No change	83	77
<i>Unweighted base</i>	<i>1084</i>	<i>725</i>

Base: Respondents interviewed in both years analysed and on IS in both years.

But to find out whether respondents do actually save, they were asked whether they had savings accounts and whether they saved regularly. These measures did not indicate how much savings a family had but whether a family saved at all - whether it be formally in a savings account or not. We looked at whether a change in saving or not was associated with repaying a Social Fund loan.

Tables 6.3 and 6.4 show that, for both measures, those repaying a Social Fund loan were significantly less likely to experience a change in their ability to save compared to those not repaying a Social Fund loan. Of those repaying a loan, 17 per cent had reported a change in whether they had savings accounts compared to 26 per cent of those not repaying a loan. In terms of saving regularly, 12 per cent of those repaying a loan had reported a change in whether they saved regularly compared to 16 per cent of those not repaying a Social Fund loan. In other words, those repaying a Social Fund loan were less likely to be associated with a change in saving behaviour compared to those not repaying a Social Fund loan. But for those who did experience a change in saving behaviour, there was some indication that this change was more likely to be positive rather than negative. Those repaying a Social Fund loan were more likely to move from not having a savings account to having a savings account in the following year (10 per cent) than vice versa (7 per cent). Therefore generally - according to this measure and, and also the summary indicator above

which measured ability to save - those repaying a loan were more likely to move into a position where they were better able to save than vice versa.

Table 6.3 Change in whether has a savings account by whether repaying a Social Fund loan

Change	Column percentages	
	Not repaying a Social Fund loan	Repaying a Social Fund loan
No to yes	14	10
Yes to no	12	7
No change	74	83
<i>Unweighted base</i>	1084	725

Base: Respondents interviewed in both years analysed and on IS in both years.

Table 6.4 Change in whether saves regularly by whether repaying a Social Fund loan

	Column percentages	
	Not repaying a Social Fund loan	Repaying a Social Fund loan
No to yes	9	[7]
Yes to no	8	[5]
No change	84	88
<i>Unweighted base</i>	1084	725

Base: Respondents interviewed in both years analysed and on IS in both years.

6.3.3 How does repaying a loan relate to whether a family is in debt?

Families on low income can maintain a level of material comfort by incurring debt. But increasing debt can itself lead to hardship if the repayments are high. Pre-1999 evidence demonstrates that, in order to pay back the Social Fund loan, many people get further into debt (e.g. Huby and Dix, 1992). In theory, the Social Fund loan itself could be used as a deposit for a larger interest-bearing loan or, on the other hand, to pay off an interest bearing debt. This section aims to compare the level of debt for those repaying a Social Fund loan compared to those not repaying a Social Fund loan.

In terms of moving in or out of debt there is no significant difference between those repaying a Social Fund loan and those not repaying a loan. In other words, repaying a Social Fund loan is not associated with falling into or climbing out of debt. However, Table 6.5 shows that recipients were significantly more likely to experience a change in the number of debts compared to those not repaying a Social Fund loan.

This change is more likely to be associated with becoming less indebted rather than falling further into debt. One explanation for this is that they were using the interest free Social Fund loan to pay off another debt - perhaps an interest bearing debt.

Table 6.5 Change in number of debts by whether repaying a Social Fund loan
Column percentages

Change	Not repaying a Social Fund loan	Repaying a Social Fund loan
Three or more debts to less than three	9	14
Less than three to three or more debts	6	10
No change	85	76
<i>Unweighted base</i>	<i>1084</i>	<i>725</i>

Base: Respondents interviewed in both years analysed and on IS in both years.

The analysis also indicates an association between repaying a Social Fund loan and a change in credit card/ catalogue debts (Table 6.6). Those repaying a loan were more likely to experience a change compared to those not repaying a loan, although the direction of this change was mixed.

The analysis did not indicate any significant association between repaying a Social Fund loan and a change in other types of debt, such as housing arrears etc.

Table 6.6 Change in number of credit card/ catalogue debts by whether repaying a Social Fund loan
Column percentages

Change	Not repaying a Social Fund loan	Repaying a Social Fund loan
Debts to no debts	[4]	[4]
No debts to debts	[3]	[6]
No change	93	90
<i>Unweighted base</i>	<i>1084</i>	<i>725</i>

Base: Respondents interviewed in both years analysed and on IS in both years.

6.3.4 How does repaying a loan relate to change in debts and savings?

The hardship index uses a summary indicator for debts and savings, defining people as being in hardship if they have no bank account and two or more debts. In this section we look at the association between repaying a Social Fund loan and the change in this summary measure.

Table 6.7 shows that there was a significant difference between those repaying and those not repaying a Social Fund loan in terms of change in hardship by this debt and savings summary measure. Those repaying a loan were significantly more likely to have experienced a change in hardship by this measure, and this change was most likely to be moving out of hardship: just under one-fifth of those repaying a loan had moved out of hardship compared to just over one in ten who had moved into hardship. This indicates that those repaying a Social Fund loan found it easier to both climb out of debt and at the same time to save, perhaps because they did not have to pay interest on the Social Fund loan they had.

Table 6.7 Change in debts and savings by whether repaying a Social Fund loan
Column percentages

Change	Not repaying a loan	Repaying a loan
No bank account +2 or more debts to bank account +less than 2 debts	11	19
Bank account +less than 2 debts to no bank +2 or more debts	9	12
No change	80	68
<i>Unweighted base</i>	<i>1084</i>	<i>725</i>

Base: Respondents interviewed in both years analysed and on IS in both years.

6.4 How does repaying a loan relate to a family’s housing conditions?

Next, we consider the relationship between repaying a loan and housing conditions. Several variables have been included in the hardship index to investigate housing quality. These are: reporting two or more housing problems and cannot afford to repair house if house owner; cannot afford to keep house warm and in overcrowded accommodation. Repaying a Social Fund loan may be related to increased hardship in these areas. But repaying a Social Fund loan may improve a family’s position since they may have been able to use the Social Fund loan to pay for these things - or to pay off an interest bearing debt and free up more income which can be used to improve housing conditions.

The analysis indicates that repaying a loan was significantly associated with a change in being able to keep the house warm (Table 6.8), and this change was in the direction of less hardship - from not being able to afford to keep the house warm to being able to afford to keep it warm. But according to the other two housing measures, repaying a loan was not significantly associated with a change in housing problems. This could be associated with a shortfall in the housing measure, which largely focuses on problems with accommodation such as ‘windows need replacing’ or ‘rising damp’ that is the owner’s responsibility. And, since a high proportion of our sample were in social housing, these problems would not have been their

responsibility. Therefore, these indicators were not necessarily suitable as a measure of deprivation. Likewise, living in overcrowded accommodation would be beyond the control of those in social housing who would have to wait to be re-housed in more suitable accommodation.

Table 6.8 Change in being able to afford to keep house warm by whether repaying a Social Fund loan

Change	Column percentages	
	Not repaying a loan	Repaying a loan
Can't afford to Can afford	6	10
Can afford to Can't afford	5	[5]
No change	89	85
<i>Unweighted base</i>	<i>1084</i>	<i>725</i>

Base: Respondents interviewed in both years analysed and on IS in both years.

6.5 Material deprivation

A family's ability to afford certain items is a measure of their material deprivation. Families may have resolved a need in one area via the Social Fund loan. However, previous research demonstrates that, in order to pay back a Social Fund loan, many people go without essential items, or buy second hand items that are more liable to break down than non users (Huby and Dix, 1992; Kempson *et al.*, 2002). This section considers whether those repaying a Social Fund loan, compared to those without a Social Fund loan, are materially deprived - and going without certain items - or whether those without a Social Fund loan are actually worse off in this respect.

In the FACS survey, respondents were asked 34 questions about individual items or activities relating to the four dimensions of expenditure: food; clothing; consumer durables and leisure activities. They had to indicate whether they possessed the item/took part in the activity, and if not, whether this was because they did not want or need the item or because they could not afford it. A family is considered to be deprived of an item or activity if they would like to have it, but cannot afford it at the moment. This combines both a desire to have an item and its affordability.

We have used the Relative Material Deprivation Score (RMDS) to identify those families who are worse off relative to their cohort. This uses 'prevalence weighting' which enables us to account for the value of items by assigning weights based on the proportion of the population that already owns such items. This method of measuring deprivation does not take into account the items that are considered to be socially perceived necessities, like other surveys - such as the Poverty and Social Exclusion Survey (PSE) - have done. The PSE method uses value judgements about which

items are necessities, and therefore which should contribute more to poverty (see Gordon *et al.*, 2000). The RMDS or prevalence method is based on population consumption and assumes that it is more serious, or that people are more needy, if they go without items consumed by the majority of the population, such as a telephone, rather than less frequently found items, such as a dishwasher (Vegeris and Perry, 2003).

In 'prevalence weighting' each respondent who could not afford an item is given a score equivalent to the percentage of cross-section families who owned the item. So the families who could not afford a commonly owned item, such as a telephone, score more highly compared to those who could not afford a less commonly owned item, such as a dishwasher. The weighted value for each item are then summed for each family. Therefore if a family lacked all items they would score 100, the maximum score. If they had all of the items (or said that they did not need/want the item) they would score zero, the minimum score. Therefore the higher the score, the higher the level of deprivation (Vegeris and Perry, 2003).

In order to be able to undertake comparison across the survey years, the prevalence weightings assigned to families who could not afford an item were maintained at the 2001 cross-section levels. In other words, when calculating the 2001 RMDS, items that families could not afford were weighted by the percentage of families in 2001 who had the item. This was then applied to the 2000 data and the 2002 data. We used 2001 rather than 2000 or 2002 as the base in order to enable our data to be compared with the other studies -based on the FACS survey- that have used this measure (e.g. Vegeris and Perry, 2003).

For the deprivation index, a judgement had to be made about where to set the threshold to distinguish the most deprived families. For the 1999 and 2000 cohort, the cut-off point was the poorest 20 per cent of families on the RMDS distribution. But in 2002, the threshold was shifted to the top 7.5 per cent in the distributions in order to account for the broader range of incomes represented in the sample population (Vegeris and Perry, 2003). We used the latter.

We considered four types of item: food; clothing; consumer durables and leisure activities as well as overall deprivation.

6.5.1 Food

People were asked whether they wanted and could afford the following food items: cooked main food everyday; fresh fruit on most days; fresh vegetables most days; meat/fish every other day; roast joint every week; cakes/biscuits on most days; brand named food on most days. These were combined into a single relative deprivation index of food.

Repaying a Social Fund loan was not significantly associated with the level of deprivation in terms of food.

6.5.2 Clothing

People were asked whether they wanted and could afford the following items of clothing: a weatherproof coat for each adult; weatherproof coat for each child; two pairs of weatherproof shoes for each adult; two pairs of weatherproof shoes for each child; new, not second hand clothes when needed; best outfit for children; brand name clothes or shoes for children. These were combined into a single clothing deprivation index. This analysis (Table 6.9) showed that repaying a loan was significantly associated with a change in clothing deprivation status: 28 per cent of those repaying a loan experienced a change in clothing deprivation status compared to 21 per cent of those not repaying a loan. This change was more likely to be a move into deprivation - 16 per cent moved into the poorest 7.5 per cent of families on the RMDS distribution compared to 12 per cent who moved out of the poorest 7.5 per cent.

Table 6.9 Consumer durables deprivation by whether repaying a Social Fund loan
Column percentages

Change	Not repaying a loan	Repaying a loan
Moved into highest 7.5%	12	16
Moved out of highest 7.5%	10	12
No change	79	72
<i>Unweighted base</i>	<i>1084</i>	<i>725</i>

Base: Respondents interviewed in both years analysed and on IS in both years.

6.5.3 Consumer durables

People were asked whether they wanted and could afford the following consumer durables: colour television; cable/satellite/digital television; video recorder; music system; home computer; telephone; refrigerator; deep freeze; washing machine; tumble drier; dishwasher; microwave oven; car or van and central heating. Again, these were combined into a single index of consumer durable deprivation.

Table 6.10 shows significant differences in terms of change in consumer durable deprivation between those in receipt of a Social Fund loan compared with those not in receipt. Those repaying a Social Fund loan (26 per cent) were significantly more likely than those not repaying a Social Fund loan (21 per cent) to have experienced change in terms of the consumer durables deprivation score. However, for those repaying a Social Fund loan, the direction of this change is inconclusive.

Table 6.10 Clothing deprivation by whether repaying a Social Fund loan

Change	Column percentages	
	Not repaying a loan	Repaying a loan
Moved into highest 7.5%	13	14
Moved out of highest 7.5%	9	12
No change	79	74
<i>Unweighted base</i>	<i>1084</i>	<i>725</i>

Base: Respondents interviewed in both years analysed and on IS in both years.

6.5.4 Leisure activities

Leisure activities have slightly different significance from the other categories of items in the sense that a Social Fund loan cannot be used to pay for them. However, they may be first to be forgone when times are hard and income to pay for other things is low, perhaps as a result of repaying a Social Fund loan. People were asked whether they wanted to undertake, and whether they could afford, the following activities: celebration with presents at special occasions; toys and sports gear for children; money for outings, trips or gifts for parties; one week holiday away from home; a night out once a month; new friends or relatives for a meal once a month. Once again, these were combined into a single leisure activities deprivation index.

The analysis revealed no significant difference between those repaying a Social Fund loan and those not in terms of the Relative Deprivation Score Measure using leisure activities.

6.5.5 Overall relative deprivation

The 34 items which make up the four dimensions of expenditure were combined to create a single index of deprivation. Overall, there was no significant difference between those repaying a Social Fund loan and those not in terms of change in material deprivation.

6.6 How does repaying a loan relate to families' hardship?

The hardship score can range from 0 (no hardship on any of the factors) through to nine (hardship on all of the factors). These scores were then summarised into three categories of hardship:

- **No hardship:** families scoring zero on the scale
- **Moderate hardship:** families scoring one or two on the scale
- **Severe hardship:** families scoring three through nine.

Families were considered to be in general hardship if they were experiencing either moderate or severe hardship.

Table 6.11 demonstrates how general hardship changed from one year to the next for those repaying a Social Fund loan in the first year compared those not repaying a loan. There was a significant difference between those repaying a loan and those not repaying a Social Fund loan in relation to overall change in hardship. Those repaying a loan were significantly less likely than those not repaying a loan to experience a change in hardship the following year. Indeed, a significantly higher proportion of those in receipt of a Social Fund loan remained in hardship, compared with those not in receipt of a loan. Moreover, of those who did experience change in level of hardship, it was more likely to be in the direction of falling into hardship. Generally, this indicates that repaying a Social Fund loan, perhaps as a result of the decrease in income, was more likely to push families into hardship than to lift them out of it.

Table 6.11 Change in hardship between by whether repaying a loan

Change	Column percentages	
	Not repaying a Social Fund loan	Repaying a Social Fund loan
No hardship to severe/moderate hardship	16	12
Severe/moderate hardship to no hardship	13	9
No change – still in hardship	54	71
No change – still not in hardship	17	8
<i>Unweighted base</i>	<i>1084</i>	<i>725</i>

Base: Respondents interviewed in both years analysed and on IS in both years.

Repaying a Social Fund loan appears to have a different impact on hardship depending upon family type. Tables 6.12 and 6.13 show change in hardship for couple families and for lone parent families. For both family types, repaying a loan was significantly less likely to be associated with a change in hardship status compared to those not repaying a loan. However, the direction of this change was different for couple parents (although this analysis should be treated with caution, due to small numbers) compared to lone parents. For couple parents, repaying a Social Fund loan was more likely to be associated with being lifted from hardship, but for lone parent families with falling into hardship. This is perhaps because the decrease in income as a result of repaying the Social Fund loan is enough to plunge already vulnerable lone parent families deeper into hardship.

Table 6.12 Change in couples hardship between by whether repaying a loan

Change	Column percentages	
	Not repaying a Social Fund loan	Repaying a Social Fund loan
No hardship to severe/moderate hardship	[19]	[8]
Severe/moderate hardship to no hardship	[14]	[12]
No change – still in hardship	47	76
No change – still not in hardship	[21]	[4]
<i>Unweighted base</i>	171	74

Base: Respondents interviewed in both years analysed and on IS in both years.

Table 6.13 Change in lone parents hardship between by whether repaying a loan

Change	Column percentages	
	Not repaying a Social Fund loan	Repaying a Social Fund loan
No hardship to severe/moderate hardship	16	12
Severe/moderate hardship to no hardship	12	9
No change – still in hardship	55	71
No change – still not in hardship	17	8
<i>Unweighted base</i>	683	996

Base: Respondents interviewed in both years analysed and on IS in both years.

6.7 Conclusions

On five out of the nine hardship indicators, there was a significant relationship between repaying a Social Fund loan and hardship change in the following year.

These were:

1. Worries about money almost all the time and runs out of money most weeks.
2. Has no bank account and has two or more debts.
3. Cannot afford to keep house warm.
4. Has a relative material deprivation score on clothing items in the highest 7.5 per cent.
5. Has a relative material deprivation score on consumer durables in the highest 7.5 per cent.

For each of these indicators, those repaying a Social Fund loan were significantly more likely to experience change in hardship compared to those not repaying a Social Fund loan. However, the direction of this change was not decisively one way or the other. For the hardship indicators (numbers 1-3), the change was positive

(moving into less hardship). But for the deprivation score on clothing items, the change was negative (moving into deprivation). The direction of change for the deprivation score on consumer durables was inconclusive.

According to the overall hardship measure - which combine all nine hardship/deprivation indicators - those repaying a loan were less likely to experience change in hardship compared to those not repaying a Social Fund loan, and if they did experience change, it was more likely to be in the direction greater hardship.

What we cannot tell from this analysis is why some people were able to experience an increase in hardship, whilst others had a decrease in hardship in the year following receipt of a Social Fund loan. This suggests that other, unmeasured characteristics and experiences affect hardship/deprivation in addition to the Social Fund loan. To explore this would require a more in-depth analysis of hardship than is possible within the scope of this study.

7 CONCLUSIONS

The budgeting loan scheme is not only the operational heart and soul of the Social Fund (Craig, 2001); it is also an important and highly valued component of the financial support provided to low-income families in receipt of qualifying benefits (Kempson, 2001), particularly Income Support. Currently, over a third of families on Income Support receive a Social Fund (budgeting or crisis) loan each year. In total, two-fifths of families on Income Support at any time are repaying a loan by deduction from their benefit. The net cost of the budgeting loan scheme, once loan recoveries are taken into account, is very low: only £3.6 million in 2002/03. The cost of administering the scheme, however, is quite high.

Chapter 3 examined the extent to which recipients of qualifying benefits make use of Social Fund loans. It is clear, both from the administrative statistics on loan awards and the secondary analysis of the Family Resources Survey, that families with children make much greater use of Social Fund loans than couples and single people without dependent children. People who are sick and disabled but below pensionable age are also over-represented among loan recipients. However, pensioners and people of Asian or Asian British ethnic background are considerably under-represented users of Social Fund loans.

The heavy reliance of families with children on Social Fund loans means that the scheme is very important to the Government's strategy for tackling child poverty. Consequently, whether or not the scheme is helping the families in most need is an important question, as is the impact of loan repayment on hardship. The analysis presented in Chapter 4 of the report demonstrated that there are significant differences between those who use the Social Fund to borrow money and those who do not. In general, Social Fund customers were more financially disadvantaged than other income support recipients. They were more likely to run out of money most weeks, to have debts, and to have trouble repaying debts and managing their finances than non-customers. They were less likely to have current or savings accounts and less likely to have savings. Families that made repeated use of the Social Fund during 2000 to 2002 were in some respects more financially disadvantaged than those that applied for a loan only once.

Thus, the evidence from this research indicates that the Social Fund is in general helping families that are in most need. This contrasts with the findings of the study by Huby and Dix (1992), which found no discernible differences between those who used the fund and those who did not. That research was conducted not long after the introduction of the Social Fund (and included grants as well as loans) and well before the 1999 changes to the budgeting loan scheme. Although the present study is not directly comparable with Huby and Dix (1992), it nonetheless does seem that, in practice, budgeting loans are now more targeted than they were when the scheme

was introduced. That said, some non-customers were financially disadvantaged and it remains unclear why they have not applied for a loan while others in broadly similar circumstances have done so.

Chapter 5 of the report investigated the events that were associated statistically with applications for a Social Fund loan. It was found that the triggers that were statistically associated with loan applications by families with children related to key events in children's lives, such as reaching school age. This is not surprising in that, for families, these events often do generate the need to make one-off purchases such as cots and school uniforms. These events seem to have been more likely to trigger applications for loans by lone parents than couples with children and by families without savings than those that do have money saved up. In other words, couple parents and families with savings on income support are to some extent protected from the negative affects of certain events.

The baby component of the Child Tax Credit is an explicit recognition of the extra costs that families face in the first year of a baby's life. However, the research reported here indicates that extra costs do not end after 12 months, but rather that there are other child life-stage events that generate the need to make one-off or other purchases that are very difficult to afford out of the weekly benefit. Parents have to make relatively costly purchases when their children become toddlers and reach school age.

For those who apply and are successful, the budgeting loan scheme enables families to purchase the items that they could not otherwise afford to buy out of their benefit income. The alternatives are to go without - that is, to experience material deprivation - or to find other ways of getting the item. The latter, whether it is buying out of a catalogue or borrowing the money from commercial lenders, is invariably a much more expensive option than the Social Fund and can result in greater financial hardship.

However it is borrowed, the money has to be repaid. Chapter 6 reported on exploratory analysis that aimed to identify the impact of Social Fund loans on hardship and material deprivation: in short, were those who borrowed money from the fund better off or worse off in terms of hardship and material deprivation? The results indicated that, more often than not, there was a significant relationship between receipt of a Social Fund loan and change in material deprivation. However, the direction of this change was not decisively one way or another – in some cases it had a negative effect and in others a positive effect in terms of hardship and deprivation. But in terms of *overall* hardship, there is some indication that repaying a Social Fund loan makes families worse off. Repaying a loan was not significantly associated with a change in overall hardship. But if change was experienced, repaying a loan was more likely to have a negative effect – and push families into greater overall hardship.

It was not possible to ascertain from this research why hardship and material deprivation got worse for some families but better for others in the year following their loan. It may have been due to factors other than receipt of a loan and the repayment of it, but that is beyond the scope of this research. Further quantitative or qualitative research would be necessary to provide more definitive answers to this question. What is clear, though, is that many families in receipt of Social Fund loans are struggling to get by on their benefit, that the Social Fund is a much cheaper way to borrow money than other sources of loan finance, and that those who receive budgeting loans are generally more financially disadvantaged off than those who do not.

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APPENDIX 1

Table A1 Key Social Fund Research Studies

Study	Objectives	Method
Pre 1999		
Becker and Silburn (1990)	<p>Twenty-seven SSD/SWDs participated in the Social Fund monitoring project. Its core objectives were:</p> <p>To monitor the impact of the Social Fund and related Social Security changes on the operation and practices of social work.</p> <p>Especially, it was concerned with social work professional practice and activity, departmental policy and operation and the interface between these and key parts of the Social Security system and clients/claimants.</p>	<p>Analysis of policy statements and procedural guides Analysis of administrative records Ad hoc surveys Snap shot surveys Case studies Secondary analysis Evaluative research</p>
Huby and Dix (1992)	<p>To Investigate the operation of the discretionary elements of the Social Fund.</p> <p>To investigate whether help was being targeted on claimants in greatest need and whether there are additional types of need which ought to be met by the fund.</p>	<p>Analysis of DSS Social Fund statistics</p> <p>Interviews with DSS staff at all levels, people in welfare rights organisations and social services in all 39 local office areas.</p> <p>Quantitative survey of 1724 people living on low income: 968 Social Fund applicants, 408 non applicants and 348 eligible people on Housing Benefit.</p> <p>15 Social Fund officers recruited to work with the research team for one month, including visits by the officers to people living on low incomes but who had not applied to the Social Fund. To assess whether any of the needs of those people could potentially be met by the Fund.</p> <p>31 in depth interviews with a sub-sample of survey respondents who had applied to the Social Fund.</p>

<p>Dalley and Berthoud (1992)</p>	<p>To describe the operation of the discretionary social fund review procedure, and to evaluate its strengths and weaknesses.</p> <p>To draw conclusion about their decision-making process within the social fund.</p> <p>To draw conclusions about systems of redress.</p>	<p>140 in depth interviews of a sample of review cases representing both a geographical spread and a range of review types. 136 of these agreed for their case to be followed back to the local office and discussed in detail with the relevant officers.</p> <p>41 in depth interviews with Social Fund officers about the details of the case in the sample for which the officer had been responsive and their general views about the Social Fund and their review procedure.</p> <p>28 in depth interviews with Social Fund Inspectors first about the about the details of the case in the sample for which the officer had been responsive and their general views about the Social Fund and their review procedure.</p> <p>Examination of documentation related to each case.</p>
<p>Cohen <i>et al.</i> (1996)</p>	<p>To examine how the discretionary Social Fund works; its capacity to meet need and the extent to which charitable sources help people unsuccessful in their application to the Social Fund.</p>	<p>Analysis of DSS Social Fund statistics</p> <p>Policy analysis</p> <p>Case studies in Great Pilton, Edinburgh</p>
<p>Post 1999</p>		
<p>Whyley <i>et al.</i> (2000)</p>	<p>To explore ways in which people use both budgeting loan scheme and community credit unions and to provide some initial information on claimants view o f the new budgeting loan scheme.</p>	<p>37 in depth interviews with 16 budgeting loan applicants and 21 credit union members. These explored individual's use of, experience and attitudes of both schemes. And their views and experience of using other forms of credit.</p> <p>Three focus groups exploring how people decide what sources of credit to use for specific types of need. Group 1: people who had had a budgeting loan between April 1999 and October 1999; Group 2: community credit union members who were receiving qualifying benefits; Group 3: people on qualifying benefit who had not applied for a budgeting loan since April 1999 nor were they credit union members.</p>

<p>Kempson <i>et al.</i> (2002)</p>	<p>To provide an understanding of the reasons for take-up and non-take up of the discretionary Social Fund among pensioners receiving Income Support in the form of MIG.</p> <p>To explore ways of addressing the barriers to take-up among those pensioners who are in need.</p>	<p>In depth interviews with 37 older people in receipt of MIG, half who had not used the discretionary Social Fund and half who had received at least one budgeting loan or community care grant. These were carried out in four different localities: two with high level for use of the Social Fund by pensioners and two with low levels of use.</p> <p>Two focus groups – one with eight non-applicants and one with nine applicants to the Social Fund.</p>
<p>Howard (2003)</p>	<p>To examine options for reforming the Social Fund in light of Government activity on poverty and changes to the deliver of benefit services.</p> <p>To demonstrate it is possible to use Families and Children Study (FACS) to construct a 'lumpy' index; to help identify the needs covered by Social Fund policy.</p>	<p>Policy analysis</p> <p>Analysis of the 1999/2000 Families and Children Study (FACS).</p>

APPENDIX 2

Table A1 Logistic regressions of the odds of being a repeat applicant for a Social Fund loan

	Significance	(Exp)B
Lone parent	0.014	1.768
Hardly ever had money left over	0.025	1.582
No savings and 2 or more debts	0.001	2.000

Base: Respondents who had made an application for a Social Fund loan in 2000, 2001 or 2002.

Table A2 Logistic regressions of the odds of making a Social Fund loan application

	Significance	(Exp)B
Moving house	0.000	1.697
A child reaching age 3	0.008	1.445
A child starting school	0.028	1.377
Decrease in the number of dependent children	0.002	0.626

Base: Respondents interviewed in both trigger and application year and on IS in application year.

Table A3 Logistic regressions of the odds of making a Social Fund loan application for lone parents

	Significance	(Exp)B
Moving house	0.000	1.638
Decrease in the number of dependent children	0.011	0.632

Base: Lone parent respondents in application year interviewed in both trigger and application year and on IS in application year.

Table A4 Logistic regressions of the odds of making a Social Fund loan application for couple parents (2000-2002 triggers)

	Significance	(Exp)B
A child reaching age 3	0.018	2.133

Base: Couple parent respondents in application year interviewed in both trigger and application year and on IS in application.

Table A5 Logistic regressions of the odds of making a Social Fund loan application by no savings in any year (2000-2002 triggers)

	Significance	(Exp)B
Moving house	0.000	1.606
A child starting school	0.017	1.500
A child reaching age 3	0.014	1.462
Increase dependent children	0.030	0.680
Decrease dependent children	0.002	0.592

Base: Respondents with no savings in application year and interviewed in trigger year and application year and on IS in application year.

Table A6 Logistic regressions of the odds of making a Social Fund loan application by savings in any year (2000-2002 triggers)

	Significance	(Exp)B
Moving house	0.016	1.952

Base: Respondents with savings in application year and interviewed in trigger year and application year and on IS in application year.