

CRISIS LOANS: EXPERIENCES OF PEOPLE IN NEED

A Cuts Watch Cymru research paper

March 2012



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Foreword – Cuts Watch Cymru

Cuts Watch Cymru is a coalition of charities and voluntary organisations in Wales working on the front-line who have come together to monitor the impact of cuts in public spending, and in particular reforms to the welfare system, on people in Wales and to call on public and third sector bodies to take action.

We are motivated by a shared concern that thousands more people across Wales will be plunged into poverty as a result of changes to come, with the most vulnerable groups bearing the brunt of change. We do not argue unthinkingly against all of the changes in public spending, to the structure of the welfare system, or indeed the relative role that the state should play in relation to the voluntary or private sectors. We accept that there are significant economic challenges facing decision-makers at all levels of government, and that it is always prudent to review spending and service provision decisions. However, any changes must be fair to all in society and ensure that the most vulnerable are not disproportionately affected.

Cuts Watch Cymru's first report, 'Wales on the edge', was published in February and launched at an event with Assembly Members from three political parties in Cardiff bay. The report outlined the likely impact of the proposed changes to social security benefits on the people of Wales using existing statistical evidence, and found that the challenges facing Wales could be the most momentous for a generation. In the coming months Cuts Watch Cymru will be reporting on the impact of changes to the welfare system. This research paper begins by looking at one element of the Social Fund, that of Crisis Loans.

Cuts Watch Cymru partners supporting this research paper:

Oxfam Cymru
Bevan Foundation

Contents

1.0 Introduction.....	1
1.1 What are Crisis Loans	1
1.2 Methodology	2
2.0 The nature of crises and needs	3
3.0 Types of Need.....	5
4.0 Experiences of accessing the Crisis Loan.....	6
5.0 Application outcomes	7
6.0 Coping without a Crisis Loan	10
7.0 Conclusions and implications for future options.....	11

1.0 Introduction

Crisis Loans were, until very recently, one of the forgotten parts of the UK's social security system. However the UK Government's plans to abolish them (and the associated Community Care Grants) by devolving arrangements for meeting people's emergency needs to the Welsh Government (and to local authorities in England) has raised their profile considerably. In doing so, many questions have emerged about whether Crisis Loans were "fit for purpose" in the first place and, more importantly, what arrangements should replace them in Wales.

Cuts Watch Cymru, a coalition of organisations concerned about the impact of public spending cuts, and especially cuts in social security benefits, on ordinary people in Wales, has explored the experiences of a small number of people in need of Crisis Loans. Their experiences not only highlight a number of issues in the current system but provide useful pointers to how new arrangements could provide better support to people in emergency need.

1.1 What are Crisis Loans

Crisis Loans are interest-free loans given to anyone (whether or not they are on benefit) to meet their immediate, short-term needs in an emergency or as a result of a disaster. It is only payable if a person has insufficient resources to prevent serious risk to health or safety of themselves or their family. Loans are repaid by deduction from benefits or other arrangements for non-claimants. The loan is sub-divided into loans for living expenses ("living expenses" loans) and "alignment loans" to cover the period until a first wage or benefit payment is received – only the former is being devolved to the Welsh Government.

Crisis Loans are the most significant element of the discretionary Social Fund, with more people seeking a Crisis Loan than any other element. At the UK level there has been a significant increase in the number of people applying for Crisis Loans – up 38% since 2007.¹ At a UK level the majority of recipients are single, aged under 35, white and not disabled.² Around 1 in 5 of the applications submitted for a Crisis Loan were initially refused³.

Crisis Loans have already experienced a number of changes. From April 2011, claimants are limited to receiving a maximum of three "living expenses" loans per year. In addition loans are

¹ Drakeford and Davidson (2011), 'Abolishing the Safety Net', available from: <http://www.bevanfoundation.org/publications/abolishing-the-safety-net/>

² DWP (2011) Changes to the Social Fund Crisis Loans Scheme from April 2011 Equality Impact Assessment March 2011. <http://www.dwp.gov.uk/docs/eia-crisis-loan-changes-april-2011.pdf>

³ DWP (2011), 'Annual Report by the Secretary of State for Work and Pensions on the Social Fund 2010/2011' available from: <http://www.dwp.gov.uk/docs/2011-annual-report-social-fund.pdf>

no longer paid for emergency items such as cookers and beds, and the maximum loan payable is reduced from 75% to 60% of the amount a claimant receives in benefit.

1.2 Methodology

Our research initially sought to explore the impact of the decision to limit the number of Crisis Loans people could receive on people in Wales, and how any negative effects could be mitigated. The research raised a number of other issues at the same time, and is therefore also useful as a response to the Welsh Government's consultation on options to replace Crisis Loans.

The research findings are based on interviews with a small sample of people who were in a crisis at the time of the interview or who had experienced a crisis in the recent past. We interviewed a total of twenty people – six in-depth case studies of individuals and families, and fourteen individuals who participated in focus groups. The majority of interviewees (19) were based in south east Wales, with one of the participants based in west Wales. In the report, pseudonyms are used for the interviewees to ensure anonymity.

The case studies of individuals were accessed through two Trussell Trust food banks⁴ and the focus groups were organised by a care and support organisation. We are very grateful to both organisations for their assistance.

The rest of this report looks at the following issues:

- the nature of the crisis experienced by people and their needs
- the experience of accessing a Crisis Loan
- the application outcomes
- the consequences of refusal.

The last section draws together some conclusions and implications from the research.

⁴ There are a number of Trussell Trust food banks in Wales. They provide a minimum of three days food to people who are in crisis. All food provided is donated by the public, and the food bank itself is staffed by volunteers. People are referred to the food bank through a variety of means, most commonly through the job centre.

2.0 The nature of crises and needs

A Crisis Loan is intended to cover the immediate needs of an individual or household which result from an emergency or disaster. It is only provided when an individual is unable to draw upon any other sources of money, in other words where the Crisis Loan is the **only** way of preventing serious harm or risk to the individual or family concerned. According to the Department for Work and Pensions (DWP) guidelines the loan can cover specific items or services and also immediate living expenses for a short period.

The kinds of crisis which affected the people we interviewed varied a great deal, reflecting the complex nature of people's everyday lives, but typically involved an unexpected complete absence of income which meant they had no money for basic living expenses, including food, utility costs, clothing and other household items. Amongst interviewees who revealed their reasons for needing emergency funding⁵ we identified three different sets of circumstances: 1) benefit related changes, 2) changes in employment/moving house, and 3) leaving prison.

2.1 *Benefit related change*

Five of the people from our sample indicated that they had found themselves in crisis because of a change or delay in receiving benefits. Of these, two people had been claiming disability-related benefits which suddenly ended when they were deemed to be fit for work following a Work Capability Assessment. For example, Peter, aged 44, was found fit for work but was not notified of this decision and only found out when he went to draw money from his bank account and discovered his benefit had not been paid. This left him without any money to pay for food or utility bills until his claim for different benefits was processed. As Peter would have to wait for the decision regarding his benefits his need was also for a long period of time – indeed he had applied for a crisis loan to cover a period of 1 month.

The three other people interviewed experienced crises as a result of different benefit-related issues. One family interviewed in west Wales had all of their benefits stopped as a result of a change in their circumstances - the couple had got back together after a period of time apart, which involved relocation for the male partner and expenses for both parties. After reporting to the DWP that they were now a couple all their benefits stopped, including milk tokens for the baby and free school meals for their children. The family were said to be going without food and heating in their home regularly, although the social worker involved was helping them out where possible with fuel payments but only had a limited fund. The clients were said to have visibly lost weight, and the baby was only getting by because he is lactose intolerant and so had his milk on free prescription. Like Peter described above, the family were in crisis for several weeks while their benefit claim was resolved.

⁵ Not all interviewees did so.

2.2 Changes in employment and moving house

For two people we spoke to changes in employment and moving house had brought about their crises. Bethan, a client of the food bank in south east Wales, had been off work due to illness, and so only had been receiving statutory sick pay. After making a claim for ESA, she was offered a lighter job in the same company she had worked for, but would go from weekly to monthly pay. The delay in receiving her first month's salary left her in immediate need for money - in addition to basic living costs, she also needed the cash to pay her rent having already received an eviction notice. For reasons discussed later, she did not wish to apply for a Crisis Loan.

For another person we spoke to moving house had put pressure on their financial situation. Samantha, who had four children, had been forced to move house for safety reasons, which had brought unexpected costs associated with a new home. Samantha's new home had no carpets, which she needed to fit in order to save money on her energy bills. She had no other sources of money, and so looked to a Crisis Loan.

2.3 Leaving prison

In the focus group, two people indicated that they had experienced an urgent need for financial assistance due to having recently left prison. The two people reported having an urgent need for help with all their basic needs:

I got out of prison 6 weeks ago, I was in for 11 months, I lost everything, my flat, my stuff, furniture, clothes everything. I put in for a loan for clothes and they gave me £59. What am I meant to do with that? I lost everything and they gave me that. I didn't even have a pair of knickers.

Participant from the focus group

2.4 Other unanticipated events

Two people we spoke to indicated that their need for help arose from other unanticipated events in their lives. One person was on medication which made him forgetful and had resulted in him losing his wallet several times. Another person in the focus group had needed urgent financial assistance to pay a fee of £500 to reconnect their electricity supply, and had no other source of money to pay.

3.0 Types of Need

People interviewed had a range of different needs for which they sought help, ranging from money to buy food, to money to pay heating bills and other daily living expenses, to help with the purchase of household items. These were mostly met through a cash loan although some people also received food parcels via the food bank. Our interviews did not identify dissatisfaction with receipt of goods in kind rather than cash although this may be because we were interviewing clients of a food bank.

We identified one person whose immediate needs were not met by the Crisis Loan as they fell outside the DWP guidelines. This person needed money for essential travel, in order for him to get access to his medication, and he felt that it was unfair that this was disallowed:

I don't understand why they would give you money for food but not for travel because if you're on medication you need food for it to work and if you've run out of medication you need money to go and get it but they don't give you that.

Participant from the focus group

We also identified needs for help over differing periods of time. One interviewee had received a Crisis Loan to cover his essential costs for one day, whilst others required emergency help for a month. The varying duration of the need for help has implications for delivery mechanisms – for example food parcels are intended to last a few days and could not meet the entire needs of an individual or family for a prolonged period.

Although the numbers of people interviewed are small, their experiences nevertheless highlight some issues that need to be taken into account in developing a new system for meeting people's needs in a crisis. Most obviously, all kinds of circumstances can result in people having no resources to meet their needs, from problems with benefit claims to losing a wallet to release from custody. The focus in any new system should therefore continue the current focus on the risk of harm to the applicant, irrespective of circumstances, rather than attempting to prescribe eligibility e.g. to certain circumstances or types of applicant. We also identified many different types of need, both in terms of costs to be covered and the duration of need. Again, this suggests that prescribing the types of need and help that can be provided is not appropriate. Rather, a new system needs to be flexible to meet the emergency needs of an individual or family, whatever those needs might be and in the most effective way. As part of this, it appears that provision of goods and services as well as cash could be part of this approach. Although dealing with a different client group, the experience of Employment Zones, in which employment agencies were allowed complete flexibility to provide support tailored to clients' needs, shows that this personalised approach can be highly successful.⁶

⁶ See for example R. Griffiths and S. Durkin (2007) Synthesising the Evidence on Employment Zones, DWP Research Paper 449. Available at: <http://research.dwp.gov.uk/asd/asd5/rports2007-2008/rrep449.pdf>

4.0 Experiences of accessing the Crisis Loan

Many studies have shown that accessing Crisis Loans can be difficult and extremely stressful. For example, even after the DWP had supposedly addressed many criticisms by introducing a centralised system, Citizens' Advice Cymru⁷ identified continued difficulties with clients having access to phones that offered privacy and getting through to the right department.

Almost all of the people we spoke to reported some kind of negative experience of accessing the loan. The majority of participants in the focus groups had experienced difficulties making the phone call to apply for a Crisis Loan. Indeed, it was not just the clients themselves who found it stressful - experienced support workers who called on their behalf also agreed it was not an easy call to make.

The difficulties were caused by a number of factors, including the attitudes of staff administering the system. One of the participants in the focus group felt that the DWP officers he had spoken to didn't believe him. He felt that there was an assumption that he was lying:

...because I'm on diazepam it makes me forgetful, so twice now I have lost my wallet and needed a loan, when I phoned up and said what had happened, they said that they are putting me on a list and I won't get any money if it happens again. I can't help it. I'm being punished for being ill. They don't believe you it's like their judging you...

Participant in the focus group

Several others agreed that they felt they were being judged negatively. One participant went as far to say that "on the phone, if they don't like your voice, you might not get the loan". Another person in the focus group commented that it was difficult to make himself understood to the person on the other end of the phone, adding that he had to write everything down before he made the call. One person had decided not to apply for a loan, even though advice workers had advised that she was eligible to do so, because of previous bad experiences of the attitudes of job centre staff.

For these reasons, several of those we interviewed said they preferred to apply for loans through face to face contact with somebody. Citizen's Advice Cymru reported similar findings in their study⁸. One interviewee said that they were less likely to be judged by DWP staff in a face to face application, although another interviewee said he felt DWP staff judged him just as much. Two other interviewees expressed concerns about visiting the job centre, as it was not perceived to be a safe or pleasant environment to be in as they had witnessed violence on past visits.

⁷ Citizens Advice Cymru (2008) The Social Fund in Wales – an evidence report

⁸ Citizens Advice Cymru (2008) op. cit.

Jenny, a client of the food bank, had experienced a lack of empathy from DWP officers concerning her plight, and felt that there was no sense of urgency in her Crisis Loan application. Jenny had contacted the call centre to make her claim, and was then asked, as is usual practice, to wait for a call-back informing her of the decision.

...Jenny later received a phone call offering her £20 for 4 weeks for food only. At that point the line went dead and the person did not ring back again. She did not ring back and did not get the £20...

Case study of Jenny, food bank client

From this limited evidence, it seems that although a telephone-based system has many advantages, it must be run to a high standard, providing quick access, effective call-logging, a professional attitude and privacy for clients making a call. It is also vital that alternatives to telephone applications are available for people who prefer to make face to face applications.

5.0 Application outcomes

This next section examines the experiences of those who had made an application for a Crisis Loan, including the experiences of those who were successful in their loan applications as well as those who were not.

5.1 Successful loan applications

A common theme for all those whose Crisis Loan application was successful was that the money loaned did not reflect their needs. In some cases the money loaned was woefully inadequate. For example, the interviewee described early who was loaned £59 for all her needs on discharge from prison, and the advice centre client who was loaned £20 to pay for 4 weeks worth of food. Other examples of what might commonly be regarded as inadequate loans were evident also:

The job centre then contacted us to say that the lady wasn't entitled to a food parcel because she had the crisis loan of £23 from that date 1st February until 28th. The only problem was they hadn't issued the loan. The £23 had to last her until the 28th Feb.

Case study of Caroline, food bank client

The client then applied for a Crisis Loan and was asked what she needed it for. She requested £150 to cover food, gas and electricity for two weeks. She explained that her fuel costs her £40 per week. She was awarded £112 instead.

Case study of Jocelyn, advice centre client

The consequences of these decisions was that Caroline was expected to feed herself for the equivalent of £5.75 per week, whilst Jocelyn had a £38 shortfall in the amount she received compared with her costs.

There was a strong sense from people in the focus group that shortfalls in Crisis Loans were very unfair, and had led some to ask for much more money than they actually needed to try to compensate. One interviewee commented that he worked out what he needed, and then doubled it in order to receive a sum of money which might just cover his needs.

There was also evidence to suggest very different amounts were loaned despite apparently similar needs. For example, as shown above, one interviewee was expected to live off £20 for a month, whilst another participant received £112 for two weeks and a third received £15 to cover his food expenses for 1 day. Of the two interviewees who had recently left prison with very similar needs, one had received a loan of £59 whilst the other received £250.

All interviewees were confused about why people received differing amounts:

I don't know how they work the figures out and how some people get loads of money and others only get £12

Participant in the focus group

This qualitative evidence presented here is supported by the statistical evidence produced by the DWP which shows the average loan amounts by local authority in Wales (Table 1). The average awards vary considerably, from the lowest in Torfaen (£54) to the highest in Ceredigion (£63). There is no obvious reason for these differences.

Table 1: Crisis Loans (living expenses) by local authority (2009/2010)

<i>Local authority</i>	<i>Awards</i>	<i>Average value</i>
Torfaen	2,060	£54
Monmouthshire	950	£55
Newport	4,360	£55
Swansea	5,340	£55
Vale of Glamorgan	2,420	£56
Merthyr Tydfil	1,450	£56
Bridgend	3,170	£56
Powys	1,880	£56
Cardiff	9,690	£57
Neath Port Talbot	3,100	£57
Denbighshire	3,550	£57
Conwy	3,730	£57
Rhondda Cynon Taff	5,520	£58
Gwynedd	2,840	£58
Wrexham	5,060	£59
Caerphilly	3,760	£59
Flintshire	3,760	£59
Blaenau Gwent	1,530	£60
Isle of Anglesey	2,030	£61
Carmarthenshire	5,060	£61
Ceredigion	980	£61
Pembrokeshire	2,470	£63

Source: DWP (2011)⁹

5.2 Unsuccessful applications

According to the DWP, the main reason why people are refused a Crisis Loan is because there is no serious risk to their health and safety.¹⁰ Some interviewees could not understand the DWP's decision: for example, one interviewee was refused a Crisis Loan on the basis that he was living in a half-way house and received one meal a day which was judged to be sufficient, a decision he could not understand. Two other interviewees were refused loans because the income they received from their jobs was deemed to make a loan unnecessary. For example Maxine, a client of a food bank, was refused a Crisis Loan because she worked 20 hours per week while another

⁹ DWP (2011), 'Local support to replace Community Care Grants and Crisis Loans for living expenses – a call for evidence', available from: <http://www.dwp.gov.uk/consultations/2011/local-support-replace-ccg-cl.shtml>

¹⁰ DWP (2011), 'Annual Report by the Secretary of State for Work and Pensions on the Social Fund 2010/2011' available from: <http://www.dwp.gov.uk/docs/2011-annual-report-social-fund.pdf>

interviewee had been refused a loan because he worked too many hours in his part-time job even though he had a very low income.

Five interviewees had been affected by the UK Government's decision to place an annual limit on the number of Crisis Loans any person could receive of 3 per year. These people had been in an emergency situation and met the eligibility criteria for a crisis loan, but were refused as they exceeded the number of claims. Their experiences highlight several issues.

First, it does not distinguish between the types of crisis in which people experience. For example, one of the participants in the focus group had received one loan to cover his living expenses for one day, but this relatively minor crisis had "used up" one of the three loans he could make, removing a safety net if he faced a more severe or prolonged crisis in the future.

Second, we found evidence to suggest that the cap may affect couples more than single people because couples are entitled to the same number of Crisis Loans as individuals. This had affected two couples we interviewed: in one case, previous loans to the individuals in the couple meant that they had reached their annual limit as a couple despite having pressing needs.

Indeed it is possible that the limit of three loans a year could encourage applicants to seek larger sums of money and be an incentive for couples to separate.

6.0 Coping without a Crisis Loan

Several people we interviewed managed without a Crisis Loan, in two cases because their applications were refused and in one case because the person did not wish to go through the experience. It was clear from the people we spoke to that being refused a Crisis Loan simply meant that their needs weren't met and they therefore had to find ways of coping without cash.

One source of support in these circumstances is food banks. Food banks provide basic foodstuffs to people who had absolutely nothing - in many cases food bank staff went out of their way to support their clients, for example delivering food parcels to clients' homes or a convenient location.

However, it was not just food parcels that were provided to people who visited the food banks. Whilst observing visitors to the food bank it became clear that clients received advice and guidance, and were often pointed to further sources of advice.

Some people interviewed mentioned other ways of coping if a Crisis Loan application was unsuccessful. One of the participants in the focus group mentioned that they coped by making

late payments, which may result in a build-up of large amounts of debt. If the debt is with a utility company they risk being disconnected, so incurring further charges.

Many of the participants in the focus group felt that being refused a Crisis Loan could lead to increases in criminal activity, not for luxuries but for basics. A support worker shared these sentiments:

I have clients, who have a reconnection fee of £500, and until they pay it the electric company will not reconnect them, but because they have already had their 3 crisis loans there's no way they can get the money, and I have to try and convince them not to reoffend...

Support worker

7.0 Conclusions and implications for future options

This modest research highlights some important issues that should be considered in the design of options to replace the current system of Crisis Loans. It is vital that the principles underpinning a new system should be right, so that they inform delivery.

First, it is clear that people experience crises in their lives for many different reasons that it is impossible to predict. Future arrangements in Wales should not prescribe the circumstances in which assistance may or may not be offered but should treat each request for help on its merits. To this extent the focus of the current arrangements on 'risk of harm and to health and safety' should continue, but with decisions being taken against a clear understanding of what constitutes 'harm' or a 'risk to health and safety'. As part of this there should be recognition of the greater vulnerability of some people (such as children or disabled people) than others. However, Cuts Watch Cymru is **not** advocating that some people should be prioritised, as the fundamental principle should be meeting the emergency needs of individuals to prevent harm.

Second, it is also clear that people in crisis have a wide variety of needs, which can cost varying amounts and may last for short periods of as little as one day or as long as a month. This suggests that a flexible approach is needed to meeting people's needs in a crisis effectively, requiring that no "need" is prohibited and that many different ways of meeting needs can be suitable. This in turn suggests that whilst cash help may still be appropriate in many cases, other types of assistance, including assistance in kind (such as food parcels) and any grants that replace Community Care grants may also have a valuable role to play. Given the likely pressure on the budget, non-cash help is likely to be increasingly important and can be a quick and cost-effective way of meeting some needs.

Third, our evidence highlights the importance of providing advice and support as well as money. Although it was not the focus of our research, many interviewees experienced a crisis

because of difficulties with various institutions, be they DWP itself or utility companies. A crisis loan may solve their immediate problem of lack of money, but it did not necessarily resolve deeper problems of managing on very low incomes or complex personal circumstances. Provision of advice and support to prevent crises re-occurring should therefore be an integral part of the new arrangements, whether this involves negotiation with energy suppliers over payment arrangements, advice on budgeting and contact with a credit union, or referral to another agency be it a food bank or furniture recycling centre.

We are, in other words, advocating that the new arrangements provide support to the “whole person”, adopting a preventative approach.

Third, our evidence suggests that the current limit of a maximum of three loans a year is arbitrary and has potentially unforeseen outcomes. Instead, if there is to be a limit on help available it should be a financial limit rather than the number of applications.

Fifth, accessibility to the new arrangements is a key issue. A telephone service appears to offer many advantages provided calls are handled appropriately and with due regard to privacy, and with an alternative of face-to-face calls being available for those who are more comfortable with this method. The many issues in telephone delivery highlighted by Citizens Advice Cymru¹¹ would however need to be addressed.

Sixth, variations in decisions and in the sums awarded confused applicants (and advice workers) and in one case led to ‘loan inflation’. This suggests an all-Wales system is most appropriate and that there needs to be greater transparency in how decisions are made. If the system in Wales is different to that in English local authorities then cross-boundary arrangements will have to be adopted also.

Last, the question in the Welsh Government’s consultation paper on which organisations are best placed to deliver the new arrangements is outside the scope of our research and in our view ought to be whichever organisation is most appropriate for whatever system is devised – it should be considered last not first. That said, it is clear from our support for an approach based on the needs of the whole person and for prevention, that we envisage a strong input from a range of agencies including the third sector.

¹¹ Citizens Advice Cymru (2008) The Social Fund in Wales – an evidence report