"Prepaid cards could transform the way people interact with benefits and services…"

THE POWER OF PREPAID

Claudia Wood
Jo Salter

DEMOS

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Any errors or omissions remain our own.

Claudia Wood
Jo Salter
January 2013

Executive summary

The Coalition Government has ushered in a welfare and public service reform agenda of unparalleled ambition: sweeping away the welfare system as we know it and introducing the Universal Credit; dismantling primary care trusts and creating new local health structures; and, within the next few months, potentially developing a new funding regime for social care. Underpinning these radical plans are two central themes – personalisation (seen in the Government's commitment to rolling out personal budgets not only in social care, but also in health, children's services and supported housing),[1] and integration, with local health and wellbeing boards being charged with coordinating a range of local services to support different need groups and the social care draft legislation proposing new duties for local authorities to integrate their health, care and housing activities.[2] Even the Universal Credit, merging six separate benefits into a single payment, can be seen as an integration of sorts.[3]

This project was undertaken with these significant policy changes, and an era of unprecedented budgetary cuts, as a backdrop. Together, they create a perfect storm for thinking about radical and inventive new solutions to the distribution of benefits and services. In particular, as public services and welfare are being reformed in parallel, there is an obvious opportunity to explore the inevitable overlap of benefits payments and personal budgets. A single pot of money given to an individual – rolling up all benefits payments and a personal budget associated with the use of perhaps several different services – could be the gold standard of a personalised and empowering state. The Right to Control pilots, which are bringing together disability benefits, social care and supported living funding into a single pot for a small group of disabled people, are the first tentative steps towards this goal.[4]

Yet to achieve such radical steps in personalisation and integration, equally radical changes to the way in which people purchase, consume and interact with services and benefits will need to be countered. Our goal in this report is to marry the big, ambitious questions on the increased spread of personal budgets and launch of Universal Credit with the nitty-gritty of implementation. Big picture reforms often stand or fall on the processes and infrastructure which can often be overlooked by policymakers: the IT systems, budgetary processes, data sharing and so on that underpin the headline-grabbing policy change. In particular, we will focus on one such nitty-gritty development – the quiet spread of 'prepaid' cards in local authorities as a means of distributing and administering direct payments.

We discuss in this report how well they are working now, and how they might be used more ambitiously in the future – as a tool for the distribution of Universal Credit, as a means of bringing together personal budgets and welfare benefits, and possibly in wider applications related to encouraging financial capability.

Methodology

To explore the prepaid card phenomenon, Demos carried out a series of interviews, supplemented by desk research, to collate a number of case studies illustrating how prepaid cards are being used in different contexts in the UK and the USA. To give us a more comprehensive overview, we sent a freedom of information (FOI) request to all 152 unitary local authorities in England and Wales.

To gain an insight of what the public felt about prepaid cards in practice and some of the wider questions they posed in relation to their use in a benefits context and as a means of integrating benefits and direct payments, we also hosted a series of focus groups with current and potential prepaid card users in Wigan, Southwark and Merton. In parallel, we hosted expert workshops in Leeds, Newcastle and London with representatives from local authorities and charities who were interested in or involved with the use of prepaid cards in a personal budget or benefits context. We also commissioned a survey of 2,000 members of the public to find out what the public mood was on monitoring or controlling spending of personal budget users and those receiving state benefits. As this report was finalised, it was revealed that the Secretary of State for Work and Pensions, Iain Duncan Smith, has asked officials at the Department for Work and Pensions (DWP) to look into the payment of benefits via smart cards (essentially prepaid cards) rather than cash to 'troubled families' to ensure benefits are spent on essentials like food, rather than to fuel substance abuse.[5] The findings in this report on policymakers' and the public's views on this controversial idea – and the practical challenges of such an endeavour – are, therefore, extremely timely.

Further details of the organisations attending the workshops and the questions we asked in our polling can be found in appendix 2.

Findings

Having drawn on these different sources we have come to the conclusion that the first generation of prepaid cards, mainly being used for the distribution of direct payments in social care, are proving very successful and are well received by card users, who, along with local authorities pioneering this payment system, are the cards' most enthusiastic advocates. The reduction in paperwork and administration associated with managing and monitoring direct payments is substantial and can generate valuable back-office cost savings at a time when local authorities are prioritising front-line delivery in the face of resource constraints.

As a result of some initial teething trouble – on the ability to support card users via the telephone as well as the internet, and the charges and fees associated with the cards and levied by the issuing banks –implementation has not been smooth for everyone. This, plus the challenge in encouraging prospective users to adapt to the new system (which is often wrapped up in wider concerns about the move from directly delivered services to a personal budget), means thoughtful implementation is key, requiring planning, securing a good deal from the card issuer and programme manager, taking on board care users' and providers' concerns and adapting the card package accordingly.

Demos also foresees a variety of further important applications for prepaid cards:

- for distributing benefits (in particular Universal Credit) for the unbanked and underbanked
- as a tool to encourage improved financial inclusion among some of the hardest to reach and those learning to live independently
- as a means of integrating several separate direct payments as they are applied in a variety of new service areas
- ultimately – as a way of realising a more ambitious vision of bringing together direct payments for services with benefit payments.

The first generation of prepaid cards is working well in the distribution of direct payments, but if they are to flourish in the more varied and challenging contexts outlined above, then the second generation of prepaid cards will need to learn from early teething problems, and those looking to administer them will need to engage pro-actively with potential users and other stakeholders to ensure a smooth transition from a paper-based system. Welfare reform and the personal budgets agenda have created significant new opportunities for more creative and innovative thinking regarding how people relate to local and national government and public services. Prepaid cards are an important tool to make these grander visions logistically possible, and cannot be overlooked as policymakers seek to turn this vision into a reality. With this in mind, Demos has made seven recommendations:

1 *In the face of unprecedented budget cuts, local authorities should explore the possibility of using prepaid cards for the distribution of personal budgets, as a tool to reduce administrative costs and reduce the budgetary cuts passed to front-line services.*
We recommend, given the importance of the planning and implementation of these cards, that local authorities pilot

prepaid schemes before rolling them out, and draw from the experiences of local authorities already pioneering such schemes.

2 *Local authorities considering using prepaid should engage with a range of different banks and prepaid programme providers and payment companies offering prepaid (such as Allpay and Advanced Payment Solutions) to compare different charges, and ensure they secure the best deal for local people.*

We support the National Consumer Law Center (NCLC) recommendation for US states to work together to reap economies of scale when negotiating with banks, and suggest local authorities could work together (perhaps in regions or local improvement networks) to adopt a prepaid scheme, giving them more 'purchasing power' in negotiating a good deal with the banking sector and potentially enabling their direct payment users to purchase services in neighbouring local authorities.

3 *Local authorities should think creatively about using prepaid in other areas, such as asylum seeker and care leaver payments, and for local emergency fund schemes destined to replace the Social Fund and community care grants.*

This would reap wider cost savings, including through opportunities to integrate funding streams where a local citizen draws on more than one service or grant, thereby making the initial investment in this technology more financially feasible.

4 *Prepaid cards should be used as a secure way to distribute Universal Credit for the unbanked.*

The details of the Simple Money Transmission Service (SMoTS) scheme are limited so it is difficult to ascertain if these cards will have the functionality of the prepaid cards described in this report (such as chip and pin, direct debit and online or telephone banking and support functionality) or if they are simply a single withdrawal card to be used at pay points. We recommend that the Government adopts a fully functional card to help people develop the money management skills required for monthly Universal Credit payments, and to provide non-cash point of sale payment and direct debit options, as well as credit-building opportunities. Less functional cards keep the unbanked in a cash-based economy.

5 *In the longer term, the Government should explore the possibility of using prepaid cards to distribute Universal Credit or other benefits to financially vulnerable groups, possibly integrated with direct payments in health or care.*
Some care users (such as those with learning disabilities, mental health needs or older people vulnerable to financial abuse) might find prepaid cards a beneficial way to spend both their health or care personal budgets and their disability-related benefits. If the practical complexities and ethical questions can be adequately settled (taking on board the legitimate benefits associated with safeguarding, but balancing these with concerns about a 'nanny state' controlling people's personal spending, and whether benefits should be treated as private income), the Government should explore the co-location of personal budgets and benefits payments on prepaid cards for some groups.

5 *The Government should resurrect a form of targeted and less generous matched savings scheme to replace the now defunct Savings Gateway, using prepaid cards – in particular for the unbanked or underbanked in receipt of Universal Credit.*
We recommend that the Government recognises the popularity of savings cards, like the Asda card, and consider creating a targeted savings encouragement scheme facilitated through prepaid cards. The primary target market for such a scheme would be the unbanked, particularly if they began to receive their Universal Credit through prepaid cards as it could be added to this card to encourage savings made from benefits income. Those benefiting from people using prepaid cards to make payments more reliably – such as housing providers, local authorities or utilities companies – might contribute to such a matched savings pot.

7 *Invest in greater information, advice and hands-on support to facilitate the transition to a more digital, cashless society.*
With the ongoing spread of direct payments and the imminent roll out of Universal Credit, Demos recommends the Government reviews its financial inclusion and digital inclusion activities and creates greater synergies between the two. This may involve investing further in awareness raising and information

and support services delivered through local authorities or local agencies such as Citizens Advice regarding online financial services, the use of direct debit and debit and prepaid cards. Without such activities, many of the groups most likely to benefit from a shift from a cash-based public service and welfare framework will be excluded.

Definition of terms

Card payment scheme: a four-party card payment scheme, such as MasterCard or Visa, enables a bank or any other eligible financial institution to become a customer of the scheme, thereby licensing them to issue cards (issuer) with the scheme brand(s) on them and/or acquire the transactions (acquirer) performed within the scheme by signing up merchants to accept cards with the scheme brand(s). Cards that operate in the scheme include credit, charge, debit and prepaid cards. The open and competitive nature of four-party schemes optimises the incentive for issuers to issue cards with scheme brand(s) and merchants to accept them, thus enabling efficient growth of both sides of the market. The payment scheme may also process, clear and settle transactions performed on their system.

Direct payments are a cash sum given directly to individuals to choose, organise and pay for the services they need, rather than using the services offered by their local authority. They are mainly used in social care, where they are cash payments in lieu of community care services; however, they are being trialled in health, housing (to replace housing benefit going to landlords) and children's social care services.

The issuing bank: a bank or financial institution, and member of a card payment scheme, which has a contractual relationship with a cardholder for the provision and use of a card of that card scheme.

Personal budgets are an allocation of funding given to care and health service users after an assessment, which should be sufficient to meet their assessed needs. Users can either take their personal budget as a direct payment, or – while still choosing how their care needs are met and by whom – leave councils with the responsibility to commission the services. Alternatively, they can have some combination of the two.

Prepaid cards are similar to normal debit cards, and in some cases are actually more flexible and user-friendly than a bank account. Funds are loaded into an account linked to the card and then spent by the cardholder until the balance reaches zero – they do not have an overdraft facility and so can never have a negative balance. They can be used to make online purchases and some come with sort codes and account numbers, enabling the card holder to set up direct debits and standing orders linked to them. They can also be used to withdraw cash at ATMs if this function is enabled, and can come with full managed account functionality and 'jam jar' technology (where cash is visible and can be physically apportioned to pay for different items).

Prepaid programme manager: MasterCard and Visa prepaid card schemes work with private companies that administer the prepaid cards programmes, called Programme Managers. Programme managers provide a range of services, including card operations, fraud and transaction monitoring, online account management and in-house call centres.

Universal Credit is a new benefit payment, replacing six existing income-related benefits and tax credits with a new combined monthly payment in arrears to a single household rather than individual recipients. Distributed solely by the DWP, it is described as a 'dynamic benefit', designed to support individuals returning to work and lessen their reliance on the state.

1 Policy background

This project has been developed at a time when significant reforms are reshaping the face of public services and welfare. The Coalition Government has undertaken an ambitious programme of reform on many fronts – free schools, localism, the NHS and Welfare Reform acts. These and others spell fundamental structural and cultural change at local and national level, but it is clear that the unifying principles behind these changes are the concepts of individual and community choice, and personalisation. In this way, the Government is following its vision as outlined in the open public services white paper – where 'choice and control' is the first of five principles by which the Government plans to reform all public services.[6]

A fundamental aspect of achieving greater choice and control is the use of personal budgets, and in particular a subcategory of them – direct payments. A direct payment occurs when an individual is given a cash sum directly, in lieu of services they might have received from their local authority or the NHS. In line with the Government's vision of handing greater choice and control to individual service users, the Government is ensuring that personal budgets (with a default option of direct payments) are available to everyone eligible for state social care funding from April 2013 – an ambitious target given around a third of social care users currently have a personal budget at the moment. They are also planning to introduce direct payments into a wider range of areas – personal health budgets are already being piloted and people will have a right to request one from 2015.[7] Direct Payments are being tested in children's services, so that parents whose children have special education needs will be able to purchase services directly across education, health and social care to support their child.[8] The housing strategy for England suggested personal budgets could be used for

Supporting People funding,[9] which is provided for people with housing and support needs who are ineligible for social care funding, and would be trialled in 2012. Finally, the Government is piloting direct payments in housing, so that tenants can have their housing benefit (which would otherwise go directly to their landlords) passed to them to pay their landlord themselves.[10]

This move – to encourage greater financial responsibility in housing tenants in preparation for the Universal Credit (when six benefits will be rolled into one and distributed as a direct payment to individuals; see box 1) demonstrates a crossover between direct payments in public services and in benefits payments. Across public services and welfare reform, the Government is increasingly pursuing strategies that enable individuals to take responsibility for a pot of state funding – whether that be benefit payments or in lieu of public services – and spend it themselves directly.

Box 1 **Universal Credit**

Universal Credit is a new single benefit payment for people who are looking for work or on a low income. It will be implemented in two stages, the first 'pathfinder' stage beginning in April 2013 in the north-east of England to act as a test case, the second in October nationwide.[11] *It is expected that all new claimants will be using Universal Credit by April 2014, while existing claims will be gradually phased into Universal Credit in a process ending in 2017.*[12]

The Universal Credit will combine six existing working-age benefits:

- *income-based Jobseeker's Allowance*
- *income-related Employment and Support Allowance*
- *Income Support*
- *Child Tax Credits*
- *Working Tax Credits*
- *Housing Benefit*[13]

> *The Government believes that this move to simplify the current benefits system by bringing together a range of working-age benefits will not only make it cheaper and easier for staff to administer but will also make it a more straightforward system for claimants to navigate. The payment is intentionally constructed to encourage independence, by mirroring a conventional salary being paid once a month, and managed online. This aim is also supported by making this payment available to people in work on a low income as well as to those who are unemployed, which the Government hopes will improve work incentives, reduce in-work poverty and smooth the transitions in and out of work.*
>
> *To ensure people are always better off in work than on benefits, the amount received in Universal Credit is dynamic – increasing or decreasing according to the amount of income a person earns. Tapering is used so there are no 'cliff edges' – sudden drops in benefits that might discourage people from increasing their hours, for example – but rather a gradual reduction of 65p for every additional £1 earned. In order to receive Universal Credit, unemployed claimants must accept a 'claimant commitment', which is based on active efforts to find a job, or gain training to be more employable.*[14] *Apart from some exclusions, payment of the Universal Credit is contingent on the maintenance of this commitment, and as a result there are strict penalties, such as a reduction of the credit, if claimants fail to pursue employment.*

The advent of the Universal Credit and widespread use of direct payments in different service areas creates interesting future scenarios – where, for example, an individual will find themselves in receipt of multiple funding streams (box 2).

Box 2

A future scenario

Jess, an unemployed disabled adult, receives: a personal budget for her social care (home visits to help wash and dress in the mornings), a personal health budget for her condition management (physiotherapy four times a week), a disabled *facilities grant, and housing benefit in the form of a direct payment. She also receives Employment and Support Allowance and Disability Living Allowance payments. From 2015, she will receive her housing benefit and Employment and Support Allowance together in the form of Universal Credit, but her Disability Living Allowance, Disabled Facilities Grant and two personal budgets will remain separate.*

It is clear that receiving multiple funding streams paid direct to the individual in lieu of services might encourage personal financial responsibility and greater choice and control over how the money is spent, but it is also potentially administratively complex and disjointed for the individual in question. It is quite possible, for example, that Jess might want to spend part of her personal health budget and personal social care budget on a form of home-based condition management support that straddles the two fields – and perhaps use her Disability Living Allowance to top it up. Drawing from each of these personal budget pots and combining it with private funding (which is how benefits income is treated) would be extremely difficult, because of the rules relating to topping up personal budgets (permitted in social care, but not in health) and the frictions and cost-shunting between health and care budgets co-funding services – an ongoing barrier to the wider coordination of these two services.

Integration

It is partly for this reason that integration is also high on the Government's agenda for public service reform. The integration of health and care has been an ongoing priority for successive governments, albeit with limited success. However, this government seems determined to finish what its predecessors started and has pushed for the creation of integrated teams, pooled budgets and joint delivery of joint targets between these two services. David Cameron stated earlier this year that health and care integration would be a personal priority,[15] while the social care white paper announced a new investment of £100 million in 2013/14 and £200 million in 2014/15 in joint funding between the NHS and social care to encourage integration. The paper also announced a new duty on local authorities to join up care and support with health and housing, declaring, 'People will not have to fight against the system: health, housing and care services will join up around them.'[16]

Some personal health budget pilots have also been charged with specifically testing out the potential to integrate health and care budgets, by providing a health budget to an individual already using a social care budget.[17] And all these measures have the creation of health and wellbeing boards as a backdrop, charged with producing health and wellbeing strategies and joint strategic needs assessments, which require multi-agency working across several different sectors in health and care, housing, leisure and transport.

Integration across multiple services is a fundamental element of personalisation, alongside choice and control,[18] as it means services work around an individual rather than have the individual navigate and bring together different services to achieve the outcomes they value. In this sense, the conception of the Universal Credit can also be viewed as an example of integration and personalisation – by bringing together a range of benefits into an individual payment, so benefit recipients will in theory have a more streamlined system without having to coordinate several separate payments (some weekly, some monthly) to balance their household budgets.

One step further?

The integration between health and care is gaining momentum, and the merging of health and care personal budgets is somewhat inevitable. However, the integration with other personal budgets is much further off, given that the budgets themselves are only now being piloted. Nonetheless, such integration would seem a natural and highly desirable next step in the evolution of personal budgets, particularly if they gain ground in housing related support.

A further level of ambition, however, is the integration between personal budgets and benefits payments. The Right to Control pilots, launched in 2010, represent the first tentative step towards this wider vision, and have tested how six funding streams (spanning benefits and direct payments) can be brought together for disabled people – the group most likely to rely on both. There are now seven 'trailblazer' areas piloting the combination of:

- Access to Work
- Work Choice
- Supporting People
- the Disabled Facilities Grant
- adult social care
- the Independent Living Fund[19]

Therefore, in the Right to Control pilot areas, a person may have their social care personal budget combined with housing and employment support benefit payments. As the Office for Disability Issues explains:

It is important to recognise that the Right to Control goes further than the progress which has been made in the implementation of personal budgets for adult social care. The Right to Control provides an entitlement to the different stages of the customer journey set out above, and enables six different funding streams to work together to, as far as possible, deliver a joined up approach at all stages of that journey[20]

The concept of Right to Control – monetising several services and benefit payments for which a person is eligible and distributing it in a single payment – could be the 'gold standard', as it were, of an empowering state, which places choice and control over the resources individual citizens are entitled to into their hands. The advent of the Universal Credit makes a more ambitious level of coordination possible, as half the battle (bringing together disparate groups of welfare payments) has already been won.

The logistics

As described, the introduction of the Universal Credit and the wider roll out of direct payments together create a perfect opportunity for creating a 'gold standard' of integration across benefits and services. However, this is easier said than done. It would require an unprecedented administrative reorganisation and investment in new technical infrastructure – and potentially also changes to legislation. Indeed, the £1 billion IT system required just to underpin the Universal Credit has already come under criticism for its complexity, cost and the delays that it may cause to the roll-out.[21]

Although this back-office infrastructure is critical, there is already a relatively low-tech payment solution – prepaid cards – being used at the front end of direct payments in social care and other areas by several local authorities, which could also be applied to the distribution of Universal Credit and assist with the coordination of the two. In the next chapter we describe how prepaid is already changing the shape of direct payment distribution in a growing number of local authorities.

2 Prepaid cards: the technology behind integration

What are prepaid cards?

Prepaid cards (also known as prepay or prepayment cards) are similar to normal debit cards, except that they do not have to be linked to a bank account. Instead, funds are loaded onto the card and then spent by the cardholder until the balance reaches zero – they do not have an overdraft facility and so can never have a negative balance.

Similar technology is already being used in the private market – for example, gas and electricity companies offer a 'pay-as-you-go' prepayment option, which allows customers to pay for gas and electricity in advance instead of after it is used. For prepayment customers, a prepayment meter is installed, which can be topped up at various PayPoint locations using a prepayment card or key. It is often used as an option for people who struggle to pay energy bills, as it makes it easier to keep track of spending. Other examples of prepaid cards include store giftcards, which are increasingly replacing paper vouchers, and in London the pay-as-you-go Oyster travel card.

These are very simple applications of a prepaid card, making use of the basic function to load a limited sum of money onto the card and then use this for a specific purpose. The above cases are examples of 'closed-loop' cards, which only work with a single merchant or chain.

More sophisticated prepaid cards are available commercially – these can be purchased by individuals, and are often advertised as a way to carry travel money, or for student allowances from parents. They can also be purchased wholesale by organisations or employers, who then load funds onto the cards and distribute them to a particular group of card users for their expenses – this is the case where prepaid cards are mainly used in the public and third sectors.

Like a gift card or energy prepayment card, these cards hold a limited amount of preloaded cash, but where they differ from, for example, a ‘closed-loop’ gift card is that they are not restricted to a single vendor, but can be used across multiple locations, both online and at physical point of sale – making these ‘open-loop’ cards, much more akin to a conventional debit card. They look just like regular debit and credit cards – an important issue in the USA (see below) where recipients of food stamps have welcomed these cards as a means of reducing the social stigma associated with paying with stamps. They are attached to particular card payment schemes (MasterCard, Visa, etc) and use these payment schemes’ acceptance networks – so they can be used wherever that payment scheme is accepted via chip and pin for example. Most prepaid card schemes have what is called a programme manager – a private company supported by an issuing bank that administers the prepaid cards programme on behalf of client organisations. Programme managers are responsible for such activity as loading funds onto the card, making transaction information available online, and delivering customer support.

These more sophisticated cards also have a range of additional features, beyond the basic preloading function. These features can be turned on or off as required by the particular programme, and include:

- *Blocking*: Spending using a prepaid card can be blocked in a number of ways. All suppliers accepting card payment are assigned a merchant category code (MCC), which identifies them by the type of goods or services they sell (eg groceries, clothing, furniture). Individual merchant categories can be blocked to restrict *where* the card is spent – for example in a casino or off-licence – but cannot block individual items, which makes controlling the purchase of, say, alcohol from supermarkets impossible. The card administrator can also block or limit cash withdrawals from ATMs and cash-back in stores, so that spending can be more fully controlled.
- *Online access and monitoring*: Closely associated with the function to specify where prepaid cards *cannot* be spent is the ability to

track where the cards *are* being spent. Both the cardholder and the organisation managing the cards are able to view balance information and past transactions online. Spending can be monitored in real-time online, which has important safeguarding benefits (see below).

- *Self loading*: Card users are able to load money onto their own cards (through PayPoint locations, post offices, online or over the phone and so on), in addition to the funds loaded by an outside agency (eg local authority or employer).
- *Budgeting control*: Linked to blocking, cards can have a maximum daily or weekly spending limit, which is either applied by the programme or set voluntarily by the card user, to help with budgeting. This is also an important feature for cards given by parents to students going to university.
- *Building a credit rating*: Some cards provide an opportunity to build up a credit rating (such as Creditbuilder[22]), which links a zero-interest loan to the card fees for one year. In paying the card fee, the card user automatically develops a credit history and begins to build their credit score.
- *Direct debits and standing orders*: One card, issued by Advanced Payment Solutions – a programme manager which also issues its own cards – also allows for direct debits and standing orders to be paid from it. This is done by working with a sponsoring bank (in this case, the Co-operative Bank) which issues an account number and sort code for the card, which can then be used for direct debit instructions.[23] These cards are becoming known as 'Bank Account Lite' because of their advanced functionality akin to a bank account.

Several of these features make prepaid cards compatible with the needs of local government, as they allow much tighter monitoring and control of public spending where it is being handed directly to individuals in the form of a direct payment. As mentioned earlier, funding for public services and welfare is increasingly being handed directly to individuals, as part of a move to empower service users while also encouraging financial responsibility. Prepaid cards are an attractive tool in mitigating the risks associated with this – such as mis-spending or financial abuse – while also allowing individuals to set up their own controls. For clients who are unbanked (or underbanked), prepaid also offers better value for money than cheques, which typically incur a cashing charge.

Perhaps more importantly, as local authorities are faced with 7 per cent year-on-year budget cuts,[24] so the prospect of reducing the administration and monitoring costs associated with handing people paper cheques or cash is very attractive. The online data gathered by monitoring these cards is also an important resource to help commissioners track demand for services and develop their care markets.

Local authorities are therefore becoming wise to the advantages of prepaid technology, and many are beginning to implement these cards as an alternative to cash, cheques or vouchers, across a range of service areas, as well as for corporate purchasing.

Current uses of prepaid cards by local government

For the purposes of this research, we were particularly interested in how local government has adopted prepaid cards in assisting with the delivery of services. With the exception of state benefits, which are administered centrally by the DWP, local authorities are responsible for the vast majority of funding transfers to individuals (including direct payments in social care, expenses given to foster carers and care leavers to live independently, emergency payments formerly covered by the Social Fund, subsistence support given to failed asylum seekers before deportation, and many others).

To gain a sense of how widely prepaid cards are currently being used by local authorities – and for which payments – as part of this research, Demos carried out a freedom of information (FOI) request to all 152 top-tier English local authorities. We asked them whether the local authority currently used prepaid cards in lieu of cash transfers or cheques, and if it is planning to introduce prepaid cards in the next 12 months, in any of the following service areas:

- direct payments for adult social care
- payments for asylum seekers
- payments for children in care or care leavers
- expenses for local authority staff or councillors
- other

We received usable responses from 139 local authorities in total. These revealed that the use of prepaid cards is already quite widespread. Of the 139 local authorities who responded, 35 (25 per cent) stated that they are currently using prepaid cards in at least one area – 15 of these local authorities are using the cards across multiple service areas.

Social care direct payments are by far the most commonly reported area where the cards are currently in use (used by 25 local authorities, 71 per cent of those currently using prepaid cards) – followed by payments to asylum seekers (10 local authorities, 29 per cent of those with prepaid cards) and care leavers and children in care (8 local authorities, 23 per cent).[25]

In addition, individual local authorities are experimenting with prepaid cards in a range of areas outside those given in the question above. Eleven local authorities (31 per cent of respondents) reported that they are using the cards in other, less mainstream, areas including:

- prepaid Oyster cards or travel cards (used by three local authorities)
- as a replacement for procurement credit cards or petty cash (two local authorities)
- youth services (two local authorities)
- appointeeships and deputyships (two local authorities)
- personal health budgets and integrated budgets (see case study 4)
- emergency subsistence funds
- test purchases as part of criminal investigations (where a young volunteer buys age-restricted items to test whether retailers are checking ID)

Future uses

There is clearly a growing appetite for prepaid cards among local authorities. Forty-two (30 per cent) of the local authorities responding to our FOI request have plans to introduce prepaid cards, or extend an existing programme, in a specific service area within the next 12 months. A further four local authorities said they are considering extending or introducing a prepaid cards programme in the future, but have no definitive plans within the next 12 months. Of the 42 with definite plans, there is a roughly 60/40 split between local authorities which are planning to implement prepaid cards for the first time within the next 12 months, and those which will be extending an existing prepaid card programme into other service areas – with the balance in favour of those implementing a new service. In total, 24 local authorities said that they plan to introduce prepaid cards for the first time in the next 12 months – around a quarter of those not currently using one.

Again, social care direct payments are the top service area where local authorities are planning to implement or extend a prepaid card programme (30 local authorities, 71 per cent of those planning to introduce the cards). Below this are care leavers/children in care (13 local authorities, 31 per cent) and payments to asylum seekers (8 local authorities, 19 per cent).

Again, local authorities reported plans to introduce the cards in a wide range of other areas, which included:

- building services (eg to enable people in council-managed property to pay for their communal lighting and utilities, maintenance charges etc)
- internal purchasing – corporate procurement, petty cash for temporary staff who cannot access the purchase card scheme
- low value items of expenditure where cash or cheques are currently being used (eg school uniform grant)
- deputyships and appointeeships (including community appointeeships)
- schools
- emergency payments (Social Fund replacement scheme, emergency payments to foster carers)
- benefits – housing benefit and universal benefits

The last of these – using prepaid cards to distribute welfare benefits – will be the subject of the next chapter.

The motivation for introducing prepaid cards – and the exact design of the service – is likely to be very different, depending on which particular service area they are being used in. For example, there is much less of a need for a customer support service if the cards are being mainly used for corporate procurement, but the popularity of these cards in distributing social care direct payments is reflective of the functions available – related to monitoring and safeguarding – which are so important in a social care context.

Prepaid cards for direct payments

A quarter of the local authorities we surveyed are currently using prepaid cards for social care direct payments – the most popular use of the cards. Our results also show that it is more common for local authorities to implement prepaid cards for the first time in direct payments before rolling them out into other areas than the other way around – 13 of the 18 local authorities who have plans to extend an existing programme within the next 12 months are already using the cards for direct payments. Only three were planning to introduce prepaid cards for direct payments, having previously used them in other areas.

Direct payments are, in fact, local authority funds which are passed to individuals to be spent for themselves. Local authorities therefore have a statutory duty to monitor the spending of direct payments in social care, to ensure the spending matches an individual's care plan and that their care needs are being met – in other words, that local authority funds are being spent appropriately. This requires local authorities to review and audit spending – where prepaid cards are not used, this involves the collection and scrutiny of paper receipts. The administrative burden of such a system is obvious, as is the reason why an online and real-time monitoring system is so attractive for local authorities wishing to reduce their back-office spending. The example of Bury Council near Manchester illustrates the impact this change in administrative regime can have.

Case study 1 Bury – prepaid for personalisation

History of the service

Bury Metropolitan Borough Council first introduced prepaid cards for carers' direct payments in October 2011, followed by prepaid cards for direct payments to social care users two months later. Previously, carers had received vouchers, but this system was quite restrictive. Bury Council decided to replace the vouchers with cash payments to allow carers more flexibility about where to spend their money, and to use prepaid cards for this. Carers can use their prepaid card to pay for services and activities, according to their support plan.

A similar scheme was introduced for social care direct payments in December 2011, motivated by the more rigorous monitoring and auditing that are possible using the cards. Personal budgets are given to individuals for a particular purpose, and the local authority is required to ensure that the money is being spent on meeting the support needs of individuals, according to their support plan. Bury Council viewed prepaid cards as a way to do this more effectively.

The Council currently has a total of around 500–600 cards in circulation, from across the two groups of users.

Requirements

When Bury Council introduced prepaid cards, its programme manager (Advanced Payment Solutions) only offered an online bill-paying service, as well as the usual chip and pin payment facilities. However, following early discussions, the Council also launched a phone service that users could call to arrange bill payments. This was an important requirement for the Council because staff were conscious that their prepaid card customers were vulnerable, often elderly, people who may not be able to manage an online account. Offering the choice of online or phone payment made this service much less restrictive.

In addition, the Council needed the facility for users to load money onto their own cards, in order to make client contributions to their care budget.

Future plans

Bury Council is encouraging new direct payment users to use a prepaid card to manage their payments instead of opening a separate bank account for their care funds, and is also encouraging existing direct payment users to switch to prepaid.

The Council intends to continue using prepaid cards for carers' budgets and direct payments for the moment, while staff build up a track record with these payment types. One area where they would consider using the cards in the future is where the Council offers a money management service to residents who are unable to manage their own finances (appointeeships). In these cases, prepaid cards could be used for people to manage a weekly cash allowance, while the Council manages receipt of their benefits and payment of household bills.

Benefits of using prepaid cards

The Council's use of prepaid cards for personal budgets has allowed staff to monitor spending much more effectively – 'that benefit really outweighs everything else'. Before prepaid cards, this was done by chasing clients for copies of bank statements and receipts, but using prepaid cards means this process can be automated. The local authority staff have online access to people's accounts, so can see straight away what money they are spending, and what they are spending it on. Weekly reports from the programme manager responsible for running the prepaid card programme also allows monitoring and early intervention where required. Helen Marrow, the Finance Manager at Bury Council, told us:

> *We can do an awful lot of monitoring and auditing without any reference to the customer. This means that we are having contact with the service users by exception rather than with everybody at each auditing period.*

This is less of a burden on service users, and makes far more efficient use of staff time – speeding up the auditing *process, and allowing staff to concentrate on social work instead of admin and other duties. Before prepaid cards, Bury Council had a huge auditing backlog – in some cases, of several years – because they did not have the staff resource to go through all of the receipts and bank statements as frequently as they needed to. Since introducing the cards, they have managed to clear this backlog:*

We still have the same resources and an increasing caseload that requires frequent auditing and monitoring, but now we are able to do it much more efficiently and quickly, in a much more timely manner.

In Bury Council's experience, most direct payment users support prepaid cards, and the associated monitoring by the local authority. Where people are reluctant to allow the Council to scrutinise their spending, social care teams usually have underlying concerns already. Once people have been using a prepaid card for a while, they find that it simplifies the process of purchasing care and is no more difficult than operating their budgets via a traditional bank account:

There is an obligation for the Council to manage the public purse. We have a requirement to audit and monitor actual spend on the Council personal budget funds, to ensure that public monies are spent for the purpose that was intended in accordance with the support plan. It is part of the Contract Agreement that they [personal budget holders] sign when they accept a personal budget, therefore service users have no choice regarding the auditing and monitoring requirements.

We find on the whole that most people understand why we do it [monitoring], and are happy for that to take place.

When we had the drop-in sessions, there were a couple of elderly gentlemen, who were basically saying, this is all new to them and it takes them a while to get used to something new, but they are managing it, and it is OK, and just to bear with them.

Problems

The initial months of prepaid card roll out were rather fraught, as it was a big change for service users and staff to adapt to. The resistance to change, and uncertainty about how to use the cards, was the major hurdle that the local authority had to overcome in the early days of prepaid card implementation. Because of this, the benefits to the local authority of prepaid cards were not immediately obvious, but since then Bury Council has experienced no major problems with the cards.

Lessons

In hindsight, the staff implementing the prepaid cards would have improved the information they provided to prospective prepaid card users, as they felt they could have explained more clearly in advance how the system would work. Helen Marrow said that the main problems had been 'all around how we had gone about introducing it, and what information we gave them [service users]… I suppose in hindsight, that could have been improved'.

When they were preparing to roll-out prepaid cards, the staff implementing the prepaid cards held a series of awareness days for prospective users, conducted staff training for all of their social workers and provided information for carers through the Council's carers support team. In addition, the staff involved spoke to local library staff, so they could offer support to people who might be using the library computers to access their account online – particularly people without internet access at home. They wanted to ensure that any staff whom card users might approach for help were fully informed ('One Stop Shop' contact centre staff and so on).

Source: Demos interview with Bury Council service manager (see appendix 1)

What are the advantages of using prepaid cards for personal budgets?

The Bury case study highlights one of the main advantages of prepaid cards over the traditional methods of cash or cheque for the local authorities we spoke to – the monitoring and auditing functions of the cards. There are two sides to being able to scrutinise personal budget spending in this way – one is being able to better account for local authority spending, and the other is the better safeguarding opportunities afforded, for both local authorities and cardholders. There are also some opportunities for cost-efficiency savings using the more automated system of administration and auditing.

Better monitoring

The ability to keep better track of how personal budget users are spending their money is the single biggest advantage of prepaid cards for local authorities, and was the main motivating factor behind the decision to adopt the cards in each of our UK case study areas. The duty to monitor spending must be fulfilled regardless of whether prepaid cards are used or not, as the local authority still owns and is responsible for the direct payments. In places where prepaid is not being used, local authorities track personal budget spending manually, by collecting and processing thousands of receipts and bank statements. Care users need to collect all of this paperwork together, fill in an extensive auditing form, and post it off to the local authority where each document is scrutinised by hand. Brent Council, another local authority using prepaid cards (see below), estimates that it was receiving around 25,000 pieces of paper each year before bringing in their card system.

Manual auditing is a laborious and time-consuming process for both social workers and direct payment holders, and is therefore only carried out monthly or quarterly. Once the paperwork is received, it may be months – or even years – before it is properly audited, during which time a number of things may have happened: a person may have regularly under-spent their monthly personal budget, suggesting that they do not require the full amount for their care package; they may have spent their personal budget on items outside their care plan – accidentally or deliberately – and this money would need to be reclaimed and better support put in place to help that person maintain their care plan; or they may also have been victims of fraud or financial abuse.

The continuous online monitoring function of prepaid cards affords much better safeguarding opportunities – any unusual purchases can be spotted as soon as they occur, and investigated straight away. Among our expert roundtables, safeguarding was viewed as the main reason why local authorities would want to adopt a system that allows monitoring daily. When we discussed the use of prepaid cards in a social care context in our expert workshops, the London group felt that prepaid cards offered the potential for greater protection for vulnerable individuals and more effective oversight than is possible with a bank account, while also allowing people to have as much freedom and responsibility for their finances as possible. This group viewed prepaid cards as a good way to achieve these two ends.

Those in the Newcastle group were more cautious, claiming that having a prepaid card for personal budget spending could raise other safeguarding issues. Some Newcastle participants were very unhappy about the possibility of support staff (carers, social workers) knowing a prepaid card user's personal identification number (PIN), which they saw as putting both user and staff member at risk. This problem is currently being addressed by offering a companion card for support staff – this second card is linked to the same account, belonging to the main card user, but has a different PIN. A set amount can be loaded onto each card, and spending on each card tracked separately to safeguard against misuse. Nonetheless, such security issues are not limited to prepaid cards, as they could equally apply to a personal bank account.

Case study 2 Brent Council – prepaid for tighter monitoring

History of the service

The London Borough of Brent has been using prepaid cards since 2008, when Brent Council signed a contract with Citi to deliver prepaid cards for asylum seekers. It then piloted prepaid cards for direct payments to social care users in 2010, but after experiencing some problems retendered its prepaid cards programme, switching to a MasterCard programme – delivered by Prepaid Financial Services – in 2012. After piloting the new service in March, it began the roll-out to its direct payment users in April, and has a few hundred card users so far.

Brent Council's original motivation for introducing prepaid cards for direct payments was the opportunity for quicker and more effective monitoring of spending. The time-consuming nature of manual monitoring (collecting and inputting receipts for purchases made using personal budgets) had resulted in a significant backlog. The Council was also not easily able to track things like client underspend, client contributions, inappropriate use and fraud, and had a large amount of council funds which needed claiming back.

Requirements

In order for prepaid cards to deliver cost savings for the Council, one of the main requirements for the programme was the ability to analyse information on card transactions effectively. To do this, the Council developed a coding system for use across adult social care and corporate finance. This system allows staff to mine the database of transactions in order to use a payment monitoring system based on 'exception reporting', rather than looking at everyone's spending (nearly all of which is non-problematic), the system automatically flags up exceptions to a person's normal spending habits so they can be investigated for misuse, fraud or financial abuse.

Brent Council also uses the information on how much prepaid users are spending and what they are spending it on to assist with market shaping (identifying high demand areas) *and to identify areas where savings could be made (for example, potential procurement opportunities).*

Future plans

Brent Council intends to expand the new programme to cover staff expenses and payments to asylum seekers, before looking for other opportunities within its business, once it has established a successful track record in social care direct payments. Prepaid cards will be used for all direct payments in future, for all existing and new users.

In addition, Brent Council staff are keen to extend their use of prepaid cards to the payment of Universal Credit, following full roll-out for direct payment users.

Benefits of using prepaid cards

Brent Council currently spends £5 million per year on direct payments, and hopes to reduce this by 10 per cent by using prepaid cards. The Council has already made cost reductions associated with making net instead of gross payments: before the introduction of prepaid cards, money was paid as a gross sum and any contributions made by individual clients was then reclaimed by the Council retrospectively. This was a time-consuming process, and resulted in an £8 million deficit showing in the accounts. Prepaid cards allow payments to be made net, because it is much easier to track whether client contributions have been made and adjust budgets accordingly.

From the service provider and service user perspective, an enormous benefit to prepaid cards has been the reduced amount of paperwork involved in monitoring spending. Previously, the local authority had been receiving around 25,000 sheets of paper every year – this can now all be processed electronically.

When they were developing the programme, the Council staff held six open days for social care users who would be using a prepaid card for their direct payments. To begin with, people were sceptical about the cards, but by the end of the open days *they were much more enthusiastic, and demand for cards has been very high. From the card user perspective, the main benefits are that they do not need to send in paperwork and receipts for all of their spending, they have 24-hour online access to their accounts, and their carers are paid more quickly.*

Problems

The key problem with the Citi cards, which prompted the retender of the prepaid cards programme, was that they were unable to provide a phone service for customer support. When the Council staff surveyed their target users, they discovered that only 50 per cent of people had access to the internet for online support.

Staff also observed that the use of prepaid cards in certain areas (asylum seekers, care leavers) is much simpler than in others. Direct payments, in particular, require a lot more administration than, for example, payments to asylum seekers, as there is a lot more monitoring involved.

Since switching providers, the main obstacle Brent Council has encountered has been the banking sector. Cash transfers to prepaid cards for direct payment users often involve considerable sums of money, which the banks are reluctant to transfer. Apart from this, there have been some minor software issues.

Lessons

Council managers identified a number of useful learning points for other local authorities considering implementing a prepaid card programme, which broadly focus on good communication and learning from what other local authorities have tried in the past.

In communicating the new programme they found that it was important to present the benefits of prepaid cards in a different light, depending on the target audience (potential users, service providers, senior management, etc). One way *that the staff achieved this was to incorporate the interests of different stakeholders into the programme design.*

During this process, the Council staff discovered that some of the concerns expressed about the introduction of prepaid cards pointed to genuine problems, and some to imaginary obstacles. Being able to distinguish between the two sets of concerns, and tackle them accordingly – either by adjusting the programme design, or alleviating fears – allowed the local authority to overcome initial resistance to the cards.

In addition, those implementing the new scheme felt that it was important to explain to potential prepaid card users how the cards would benefit the local authority as well as the individual. They found that, in general, people acknowledged the squeeze on local authority spending, and the need to cut costs and deliver services more efficiently.

Source: Demos interview with Brent Council service manager (see appendix 1), National Prepaid Cards Steering Group case study[26]

Market intelligence

Another benefit of using prepaid cards in a direct payment setting is the collection of 'market intelligence' – local authorities can see first-hand what their local care users are purchasing with their direct payments, and where. This sort of information is invaluable to help commissioners identify the types of service in demand and gain a better idea of their local care markets. For several years there has been a shift from local authorities being a direct provider or commissioner of services, to one where the local authority facilitates and stimulates local markets to ensure care users armed with personal budgets can purchase from a diverse range of affordable, good quality and accessible local services. Recently, the Department of Health (DH) announced a partnership with the Institute of Public Health to develop with local authorities the Developing Care Markets for Quality and Choice (DCMQC) Programme.[27] The programme is designed to help local authorities with three aspects of market facilitation – market intelligence, market structuring and market intervention.

With an initial focus on production and development of market position statements, the programme offers support to all local authorities in England to develop their market facilitation role. Market position statements 'should present a picture of demand and supply now, what that might look like in the future and how strategic commissioners will support and intervene in a local or regional market in order to deliver this vision'.[28] These essentially lay out each authority's commissioning strategy and plan for developing a diverse range of high quality local care services, based on their knowledge of local needs and the existing service offer. It seems clear that the front-line, micro-level data that prepaid cards would gather would be an extremely useful source of evidence to help guide these statements, as well as the commissioning priorities of local authorities and delivery strategy for third sector providers to address emerging demands (if these data could be shared with them).

Financial benefits

The financial benefits of prepaid cards – the direct cost savings – did not come through particularly strongly in our research with local authorities. Instead, what was emphasised were efficiency savings, as well as cost avoidances. The main way in which efficiency savings were achieved was being able to reduce the amount of staff time spent on collecting and auditing receipts and bank statements, and so increase productivity in other areas. As the number of personal budget users increases, it also allows social care teams to do 'more for less' – or at least 'more for the same' – without needing to employ extra members of staff to cope with the extra auditing requirements, thereby avoiding the costs of extra salaries. At a time when social care funding is under unprecedented pressure, any reductions in staff time and associated costs made in back-office functions can mitigate the effects of cuts on front-line services.

A more comprehensive analysis carried out across ten local authorities by Ticon projected an average anticipated saving of 36 per cent in administration costs, based on a business case analysis of moving all Individual Budget holders in the area onto prepaid cards. Ticon's analysis carried out for the London Borough of Havering suggests that using prepaid cards for the distribution of direct payments in the area will lead to a 66 per cent reduction in administrative costs over a three-year period.

Brent Council also reported that it is managing to further reduce the costs of administering personal budgets in various ways, using prepaid cards. Brent Council has a service budget of £5 million per year for personal budgets, and expects to save 10 per cent of this, through clawback and payments made net instead of gross:

- *Clawback* occurs when cards are cancelled after a card user dies or moves out of the area – any funds loaded onto a prepaid card are not lost but revert automatically to the local authority.
- *Payments made net instead of gross* is the payment of money directly into an individual's bank account as a gross sum. If clients are expected to make contributions to the cost of their own care, the local authority later reclaims the difference. This can take a substantial amount of time, and resulted in an £8 million deficit showing on Brent Council's accounts. Since introducing prepaid cards, the Council can make payments net, excluding client contributions, as it is very easy to look at a person's account to see if these are being made. This saves the costs of chasing client contributions.

Given the evidence from Ticon, it may be that Brent Council will reap greater cost savings in the longer term as more of its social care users transfer to a prepaid card system.

Enhancing personalisation

Personal budgets and in particular direct payments enable people to tailor their care and support to suit their personal preferences, as they are able to take control and purchase their own care package. The message coming from local authorities currently using prepaid cards to deliver direct payments is emphatically that the cards have helped to advance personalisation, through several means.

On a practical level, prepaid cards have allowed local authorities to increase the number of personal budget users in their area, in line with government targets, because of the significantly reduced administrative burden. Local authorities like Bury Council were struggling to sustain their existing number of direct payment users under the old administrative system, while building up huge backlogs of accounts requiring auditing. Through bypassing this manual monitoring, with the same number of staff, councils are able to support many more direct payment users. This suggests that prepaid cards – or a similar technology that automates the monitoring of personal budget spending – may be essential if the Government is to achieve its target of 100 per cent roll-out of personal budgets in 2013.[29]

One local authority – Kent – reported that it had encountered some initial resistance from local service providers to the idea of prepaid cards, because of the upfront costs (such as the cost of installing a card terminal) of becoming enabled to accept card payments, as well as card-processing fees, which are absorbed by the service provider. However, the switch to prepaid had ultimately forced providers to adapt their business model to fit in with personalisation. This has had some unexpected benefits, as providers (particularly domiciliary care agencies) are now able to offer card as an alternative payment form to all service users – not just those with a prepaid card. Many had previously only accepted payment by cash or cheque.[30]

An interviewee at Kent County Council told us:

Providers have said, through this, it creates more work for us… what we have said to them is that personalisation is here to stay, people do want direct payments, and they need to think about their business model; are they geared up for that?

However, one note of caution was raised in our roundtable discussions on personalisation. There was some concern among members of the London group over whether having a direct payment in the form of a prepaid card should *be* a choice, as well as *facilitating* choice (direct payment users should have the option to use either a prepaid card or a personal bank account to receive their funds). In the case of direct payments – which are all about personalisation and choice – making prepaid cards the only payment option could be seen as conflicting with this vision. In Kent, direct payment users currently have a choice between receiving their money on a prepaid card, or straight to their personal bank account. There is currently a roughly 40/60 split between bank accounts and prepaid cards, respectively. However, the representatives from Kent at the roundtable acknowledged that this 'hybrid' system – where both prepaid cards and bank accounts are in use – limits the opportunity for monitoring and fully realising the cost savings.

What do service users say?

Up until this point, the benefits of prepaid cards have been discussed from a local authority and service provider perspective. But what do service users themselves think about the idea of spending their personal budget using a prepaid card? To understand how they perceived the relative merits of a prepaid system, Demos hosted three focus groups with current and potential prepaid card users (social care users who have or will be receiving a personal budget in the future) in Merton, Southwark and Wigan. Wigan is a pathfinder council testing the use of Universal Credit, while Southwark is piloting the direct payment of housing benefit. The experiences of these councils will help inform the development of Universal Credit (see chapter 1) and the direct payment of benefits, so we felt it was important to hear from local people in these areas about their experiences or perceptions of prepaid cards.

People who were already using a prepaid card for their social care direct payments spoke very positively about them. One card user in the Merton group praised the ability to make the process of spending on care very simple – he was an elderly man and reported that he did not have to worry about sending in receipts. He had been shown how to manage his account online, made payments online, and felt the whole system was quicker and easier than before. Not having to send in paperwork was considered to be a significant advantage, as it reduced the amount of work involved in managing a care package. Another group participant was a carer, using the card to purchase her mother's care. She made payments over the phone and praised the system for its ease of use.

The most common use for prepaid cards among the current card users in our three groups was to pay their carers, and there was a general acceptance among card users that this was the main purpose of the cards (though a few people mentioned that they could also use prepaid cards to pay for courses and day centres). An advantage of the cards is that they allow payments to carers to be made much more timely (on the same day).

As a result of this, although card users acknowledged that the cards could only be used in fairly restricted ways (the cards used in Merton do not allow people to make cash withdrawals or write cheques), this was not a problem, as it was not any inconvenience to pay carers by bank transfer.

Both those currently using a card and those without agreed that the additional security offered by a prepaid card was a major advantage, and that this would help improve safeguarding and prevent financial abuse of personal budget users. Current card users explained that a password is used both online and over the phone.

Prepaid cardholders in Merton were very clear that their card was for spending on their care only. For this reason, they did not object to the local authority being able to track all of their spending online. They felt that monitoring was essential for safeguarding purposes – although they did not particularly feel that there was a risk of funds being spent inappropriately by card users, they did recognise the dangers of financial abuse by friends and relatives.

In areas that were more advanced with implementing prepaid cards (such as Merton), people were much more receptive to the idea of having a card for themselves. This is possibly because of the amount of extra information, support and advice available in areas with an existing programme – Bury Council, for example, carried out an extensive awareness-raising programme ahead of rolling out the cards. This included holding information days for prospective users, providing extra training for social workers and contact centre staff, and distributing information for carers through the carers' support team.

Areas of concern

Although prepaid cards have demonstrably benefited local authorities and service users, their implementation has not been an entirely painless process, and there remain questions around the exact design of the cards and the nature of their delivery.

Our profiled local authorities had encountered some challenges in rolling out prepaid cards relating to the provision of appropriate customer support, and with their relationship with banks and financial institutions – in particular the various charges levied on local authorities and card users.

Customer support

Customer support is clearly an important consideration for the group of service users who would be using a prepaid card for their direct payments in social care. Those in this group are more likely to be older or disabled, and will need to be supported in order to adapt to a new payment system. Managers at Bury Council reflected that improving the information they provided to prospective card users ahead of introducing the cards would have helped explain the system more clearly in advance, and assuaged some of the concerns service users had on this front.

Support must not only be available, but also accessible. The problem that prompted Brent Council to retender its entire prepaid cards contract was that support was only available online, as the provider did not offer a phone support service. A survey of its target group for prepaid cards revealed that only 50 per cent of these people had access to the internet. In our Wigan focus group, none of the attendees felt that they would be able to access support online – either because they did not have regular access to a computer with an internet connection, or because they did not have the technological know-how to use the internet, and frequently both.

Members of all three of our expert roundtables also raised the issue of internet access as being a major barrier to prepaid cards being genuinely inclusive. Attendees at the roundtable in Newcastle argued that some people – elderly people, for example – cannot or will not use online account systems. One participant at the Leeds roundtable suggested that the costs of training and support for vulnerable individuals to learn digital literacy skills would inevitably be high, but – here and elsewhere – it was felt that the move towards a 'digital society' was inevitable and that it was important to support the most excluded members of society to manage online, so they were not left behind: 'It's about changing behaviour more than the functionality of the system.'

Charges

A second major issue was the financial sector itself. From our local authority profiles and expert roundtables there was a strong feeling that banks and financial institutions are not yet geared up to handle large numbers of people using a prepaid card for their care spending. In Brent Council's experience, banks were often reluctant to transfer the large sums of money required for a care package. However, a more serious problem is the different fees and charges that are payable on the cards.

As table 1 demonstrates, these administrative fees vary widely between different programmes. Some fees would naturally be absorbed by the local authority in question, and some by the retailer or care providers. Other fees, such as for international cash withdrawals, would be paid by the card user themselves. All three will have an impact on the affordability and attractiveness of prepaid card schemes and need to be considered carefully by local authorities as they embark on a new prepaid system. As the prepaid market continues to develop, competition between different providers is likely to push fees down, but in the meantime, local authorities will need to engage in a pragmatic and practical dialogue with the variety of programme managers in order to get the best balance between cost and requirements, and secure the best deal.

Table 1 **Typical charges by prepaid card programme managers**

Typical fees	Price
Set-up fee (per programme)	£0–£1,000
Annual fee (per card)	£0–£36
Card issuee	£2–£4.95
Additional card for a single account	£2–£4.95
Inactive card	£0–£4.95
Replacement of lost card	£2–£4.95
Point of sale or online transaction fee	Free to client (paid by vendor)
ATM use	£0.99–£1
Setting up standing orders and direct debits	£0.35–£1
Bounce back (transaction failed because of insufficient funds)	£20
BACS transfer	£0.35–£0.50
Merchant blocking	£500–£1,000
Cancellation of card	£10
Card loading (by local authority)	£1 or 1.5% per load, often included in monthly or annual charge
Client service	Normally free for 9–5 call centre

Source: A Guide to the use of prepaid cards in Local Government, National Prepaid Cards Steering Group.[31]

The introduction of faster payments has pushed bank charges up even further, which for one of the local authorities whose manager we spoke to during the course of our research had made the cost of running the cards prohibitively high and forced the staff to abandon a prepaid cards pilot.

Case study 3 North Somerset Council

North Somerset Council piloted the prepaid MyCareCard for social care direct payment users for a short period between July and December 2011 before terminating the programme, which had 30 card users at its peak.

The key reason for the termination was the introduction of faster payments (same working day instead of three working *days processing time under BACS) by the Payments Council, in order to comply with European Commission legislation, which came into effect from January 2012. The instant transfer of money between accounts led certain banks to compensate for the loss of interest on funds in transit by increasing the transaction charges on BACS transfers tenfold, from 40p to £4 per transaction. These transaction costs were borne by the Council, and not by prepaid card users, as the Council felt that people should not be forced to spend their social care funding on bank charges.*

The council staff calculated that if they had rolled prepaid cards out fully under the new payment scheme, total transaction costs would have increased from £146,000 to £1.46 million. They felt that it would be bad practice at a time when they were being asked to reduce their spending by almost 30 per cent to transfer £1 million away from front-line services to pay bank charges, and so were forced to abandon the prepaid card programme. (Bristol City Council was on the verge of signing a contract for prepaid cards, and backed out for the same reason.)

This was a blow for North Somerset Council, as following the successful pilot, the staff had been planning to introduce prepaid cards across all areas where the local authority pays money directly to an individual – including emergency payments to foster parents, carers' budgets, emergency housing payments and petty cash.

They had originally been keen to introduce prepaid cards because of the policy shift towards lighter touch monitoring. They felt that prepaid cards could help to achieve this by allowing individuals 24-hour access to their accounts, and giving the local authority the opportunity to monitor spending in real time, without the need to collect and process receipts. There was also the option for council staff to switch off certain merchant codes on the cards to block inappropriate spending (eg on casinos and betting shops).

However, during its brief piloting of prepaid cards, local authority staff recognised various problems with the use of prepaid cards. North Somerset has a large elderly population, who are not generally IT literate and do not generally have *access to a computer. These people were still filling out paper forms in order for the Council to monitor their spending, and so were not benefiting from prepaid cards. The Council staff also felt that there was a cohort of people who would never be able to manage their own money using a prepaid card – including people with severe mental and physical disabilities, as well as some older people.*

The local authority also encountered some issues around financial regulations, which prevent a person's carer from using the prepaid card on behalf of the card holder. The cards could only be loaded with a maximum of £10,000 at one time, which for some high-cost users with complex needs would have resulted in multiple transactions each month. The Council also experienced a high frequency of lost cards and/or PINs.

Since this interview was carried out, North Somerset Council was subject to a peer review by a local authority, which had managed to implement prepaid cards successfully without incurring excessive bank charges. Following this review, and with input from service users, North Somerset Council is now looking again at the possibility of rolling out prepaid cards.

Source: Demos interview with North Somerset Council service manager (see appendix 1)

As mentioned above, it is up to individual local authorities to decide whether to absorb costs associated with prepaid card transactions, or pass some or all of them on to the card users, which they are understandably reluctant to do. Kent Council does not pass any of the running costs of their prepaid card – the Kent card – on to card users; the local authority pays the running costs of the cards, and service providers pay the costs of processing transactions. A project manager at Kent Council staff reasoned that there would be no incentive for people to use a prepaid card if they were charged for the privilege: 'Because where would the incentive be for a client to have a card that they would then have to pay for?'

North Somerset Council, profiled above, were also determined not to pass on any service charges to its card users, as people would be paying these charges out of their personal budget – money which is intended for spending on care.

Charging service users to spend their personal budget was widely viewed as unfair by our roundtable experts. The Newcastle group felt that for prepaid card users to incur extra charges was inherently disempowering, as transactions would cost the prepaid card user more than those receiving the money straight into their bank account. Some group members were aware of charges already being problematic for certain areas of direct payment spending, even without a prepaid card; for example, when a direct payment recipient needs money in advance (eg if going on holiday), they incur extra fees. Those in the group were especially concerned about the possibility of prepaid card users being charged multiple times – once to set up the card, a second time for any transactions, and potentially a third time if the local authority passes on the cost of loading money onto the card each month.

This group also discussed the implications of transaction charges for service providers. On the one hand, absorbing these costs would have a significant impact on providers' annual budgets. On the other, the group believed that this might simply be a necessary part of the evolution of the voluntary and community sector.

Focus group participants too were concerned about the transaction charges on the cards. In Merton these applied to payments made online, but not over the phone. There was a general impression that this was unfair, especially when people are using this money to pay for care and support and needed to make their money go as far as possible.

Despite these concerns, the alternative arrangement – for local authorities to absorb service costs – has its own set of problems. As North Somerset Council found, taking on the costs of running a prepaid card programme adds a considerable amount to the overall budget for direct payments, particularly when these charges are set by the banks, and subject to change based on banking regulations (the fourfold increase of the charge for BACS transfers is an example of this). While it is highly likely that cards would reap significant cost savings in the longer term through a reduction of administration, this was a *long-term* saving. In other words, local authorities may be faced with a typical 'save to spend' dilemma when it comes to prepaid: the initial outlay associated with prepaid cards may well be offset by the savings made down the line, but in a time of stringent budget cuts any outlay – even those which guarantee savings – may be difficult to justify.

Lack of flexibility

A third potential concern arose when speaking to care users: the perceived lack of flexibility of the card. This was the main reason given by participants in our focus groups who did not yet have a card for not wanting one – in Merton in particular the cards cannot make cash withdrawals or write cheques. Of course, the level of controls placed on such cards is at the discretion of the local authority – a council could allow for cash withdrawals, but this would then necessitate the keeping and sending in of receipts to fulfil its statutory duty of auditing personal budget spending. In so doing, it would somewhat defeat the purpose of having the prepaid card. Though participants recognised that prepaid cards could be helpful for tackling fraud and financial abuse, the lack of access to cash was felt to be limiting and certainly not conducive to choice and control. There were felt to be things that people would always need to pay for in cash, such as transport, which are part of a person's care plan, though it was recognised that many 'cash' items (such as lunches and sundries) were excluded from care plans and therefore people were unable to spend their direct payments on these items in any case. Not being able to withdraw cash also meant that people in Merton could not use a prepaid card if they travelled abroad, for example to visit family. Overseas use is another function of prepaid cards that can be switched on or off by the local authority.

People without prepaid cards were also worried that the cards would not be flexible enough to accommodate payments to different carers, attending at different times. In these cases, payments would need to be made ad hoc, instead of as a regular direct debit. People did not necessarily want to pay their carers automatically in case they did not come when they were supposed to (this was recognised as a problem with the carers' agencies rather than with the prepaid cards themselves).

More general concerns

The care users in our focus groups currently using a prepaid card were positive about them, felt they were a welcome move from the old paper-based system, and were actively advocating them to their fellow group members (many of whom were managing direct payments through their own bank accounts). On the other side of the coin, direct payments users who did not have a prepaid card seemed cautious and reluctant at the prospect of an entirely new system to manage their money. This may have been in part because the people attending our focus groups tended to be older people, who were accustomed to using cheques and cash.

One participant in Merton receiving a direct payment but not on a prepaid card spoke for many when he said he was doubtful of the advantages of prepaid, that he was used to the old system, and did not mind having to send in his receipts and paperwork every month.

However, some of the concerns expressed were related to personal budgets more generally – the need to manage one's own money and care plan, employ one's own personal assistant, and so on. From our focus groups it was clear that personal budgets – destined for 100 per cent take up by April 2013 – were in themselves a significant change for care users accustomed to having their care package arranged and delivered directly by the local authority. The concept of taking control of one's own care was daunting to some we spoke to. Prepaid cards are one of a suite of tools which can in theory make the management of direct payments more straightforward, but given that some care users may have only just become accustomed to the paper-based system, it is inevitable that a move to prepaid may seem like another unwelcome change. For local authorities only at the beginning of their path to 100 per cent personal budget take up (while the national average is around 30 per cent, some local authorities have less than 10 per cent of their care users using a personal budget), it may ease the transition to introduce prepaid cards simultaneously, thereby associating this form of payment with personal budgets from the very beginning and introducing just one change to care users.

However, it is also true that the roll-out of personal budgets in social care will present a new challenge for prepaid cards, to which care users will have to adapt. For example, as personal budgets are rolled out nationally, those who are harder to reach and who will have more difficulties in managing the budget will be included. In the next six months it is inevitable that the numbers of direct payment users with mental health needs or who are older (groups whose take up of personal budgets has hitherto been low relative to other care users) will rapidly increase, and these groups will find the management of their own budget a challenge. Prepaid cards by extension will similarly spread to those in these hard to reach groups, who are also likely to find using the card more of a challenge.

Moreover, as personal budgets become embedded, and people become more experienced with purchasing their own care, it is likely that card users will branch out into 'non-traditional' spending – such as on IT equipment or employment support – rather than on domiciliary care. This may make it harder to monitor spending and separate this out from personal spending, made up of a person's own private care contribution, which is co-housed on the same prepaid card. We consider the complexities of integrating more than one funding pot on a prepaid card in chapters 3 and 4.

Where next?

This chapter has looked at the current state of play for prepaid cards in local authorities, where the dominant use of the cards is currently for direct payments in social care. The sense from our research is that prepaid cards are a highly attractive and sensible solution for the distribution of direct payments, and that the local authorities and care users using them have had positive experiences and advocate their use as a means of cutting the paperwork associated with the monitoring of direct payments. However, we also realise that this technology and its implementation can still be refined and improved, and cards are still evolving to suit different demands. What is outlined in this chapter can therefore be considered to be the 'first generation' of prepaid cards – used in very specific contexts, encountering some minor teething problems as they find their way, and still treated with some caution by potential users. Awareness is relatively low, although these cards are now spreading fairly rapidly across the country: if our FOI request is correct, half of all local authorities will be using them in some way (and mainly in social care) by 2013.

Nonetheless, it is clear that the lessons learned from this generation of cards will inform the next generation as they continue to develop and adapt to different contexts. North Somerset Council is already working with a partner local authority to see how they might overcome initial implementation challenges, while Brent Council has moved to another provider offering an improved support function to meet the demands of the local population. This suggests cards are already evolving.

In the following chapter we consider what might be described as the 'second generation' of prepaid cards, being applied in a wider range of service and payment contexts, and testing the boundaries of their flexibility and the sophistication of their monitoring function.

3 The future of prepaid – Universal Credit?

In the previous chapter, we have seen how prepaid cards are currently being used to reduce the administrative burden associated with monitoring and auditing personal budgets. The findings from our FOI request of all 152 local authorities with social care responsibilities showed that 25 per cent of local authorities have adopted or are trialling prepaid cards, and in 71 per cent of these cases they are being used for the distribution of personal budgets in social care. However, as local authorities work towards their 2013 target of 100 per cent take-up of personal budgets among eligible care users, and at the same time have to maintain services in the face of annual budgetary cuts of 7 per cent, the prospect of significantly reducing the distribution and auditing costs of increasing volumes of personal budgets through prepaid cards is no doubt attracting many more local authorities to the system. Staff in a further 30 per cent of local authorities we surveyed said they were looking to trial prepaid cards in the following 12 months.

However, in other countries, prepaid cards are more usually associated with the distribution of state benefits. We focus in this chapter on the USA, where prepaid cards have the longest history, and identify lessons which might be applied in the UK.

Prepaid in the USA

Electronic benefit transfer cards

In the USA prepaid cards have been used for state and federal benefits since the 1990s. Bill Clinton's Personal Responsibility and Work Opportunity Act (1996) included a provision which required that all states issue benefits electronically by October 2002, so that paper cheques and food stamps would have to be phased out by that time.[32]

As a result, all 50 US states now use electronic benefit transfer (EBT) cards – government-issued prepaid cards – to issue food stamps (Supplemental Nutrition Assistance Program; SNAP) and temporary assistance to needy families (TANF). EBT cards are automatically reloaded by state governments when benefits are due,[33] but unlike personal budget cards in the UK, individuals cannot load their personal funds onto their EBT cards. There are also many restrictions on where people can use their EBT cards, for example: SNAP cannot be used to buy non-nutritional items such as alcohol or pet food,[34] and a 2012 survey of EBT cards used for distributing TANF payments found that, of the cards surveyed:

- 100 per cent blocked EBT cards from being used in casinos
- 40 per cent blocked other types of gaming businesses, including poker rooms, bingo halls and horse or dog tracks
- 40 per cent blocked adult entertainment clubs, massage parlours, businesses that sell alcohol (night clubs, bars, saloons or taverns), as well as bail bondsmen and tattoo or piercing parlours, tobacco and cannabis shops
- 20 per cent blocked cruise ships, firearms and ammunition dealers, psychic readers and spas and salons[35]

Unemployment benefits

There are now 41 US states that use a prepaid card to distribute unemployment benefits for people without bank accounts, or to those who prefer using prepaid cards – up from 30 states in 2009. The majority of these moved from a paper cheque system to an electronic transfer to save administrative costs, but given the relatively large numbers of unbanked people receiving such benefits in the USA, prepaid cards were introduced for this group simultaneously with the wider roll-out of electronic transfers.

These cards are operated by a variety of different issuing banks (depending on the state), but the card itself is administered by either Visa or MasterCard, and can be used at both point of sale and as an ATM cash withdrawal card.

Recent controversy

A 2011 report by the National Consumer Law Center (NCLC) reviewed unemployment benefit prepaid cards that are on offer across 40 states. The report *Unemployment Compensation Prepaid Cards* analyses all 40 prepaid 'unemployment compensation debit cards' and finds significant variations in the amount of fees claimants were charged for using their cards. The researchers concluded: 'Prepaid cards come with many fees that… can drain precious dollars from families at the very time they need it the most.'[36]

They found that in many states claimants are charged fees for withdrawing cash, checking their balance at an ATM, denied transactions and overdrafts, requesting paper statements, inactivity, and so on. The charges are down to the issuing bank (rather than the card administrator – Visa and MasterCard) so vary significantly by state. So, for example, US Bank is the only bank in the USA to charge overdraft fees of between $10 and $20 on unemployment benefit cards, but this affects cards in five states using this bank as its card issuer. The study found the best cards were offered in California and New Jersey by the Bank of America, while the Tennessee cards (issued by JP Morgan Chase) have the most so-called 'junk' fees (eg fees to withdraw cash and make chip and pin transactions).[37]

The Durbin Amendment, a last-minute addition to the 2010 Dodd Frank Wall Street and Consumer Protection Act, placed a cap on the amount of fees banks could charge merchants every time a customer used their credit or debit card, but prepaid cards were not included in this amendment. The NCLC suggests that one of the reasons that US banks have been so keen on entering the prepaid market is because they can claw back some of the lost income resulting from the Durbin Amendment, restricting the fees they place on regular credit and debit cards.

Despite the problems highlighted in the report, the authors concluded that prepaid cards were a positive improvement on the previous paper cheque system, especially for the unbanked or even people with bank accounts who may have problems with overdraft fees or debt collectors. The authors, drawing on the experience of the states that provide a good prepaid card deal for welfare recipients, make a number of recommendations to improve the system – primarily, they urged states to be more assertive when negotiating contracts with the banks that issue the prepaid cards, and suggested that states should enter negotiations collectively, as this would create a larger pool of potential card users – giving states more bargaining power.[38]

Co-branding cards?

Some states are now considering integrating their EBT cards (for food stamps – SNAP, and emergency payments – TANF) with their Visa and MasterCard branded cards used for unemployment and other local benefits. This is known as 'co-branding' as it involves creating one card co-branded with the 'Quest' logo (which administers EBT cards) and with either Visa or MasterCard. This would allow benefit recipients to access restricted and unrestricted government-issued benefits using a single payment card. Specifically, the co-branded card would be accepted for unrestricted cash transactions (taken from the unemployment benefit fund within the card) while food stamp benefits, which are restricted, would be established as a separate account, thereby ensuring that food stamp related purchases could only be made at authorised retail locations.[39] The state of Utah handed its co-branding contract to JP Morgan Chase, tasking the company with bringing together the state's EBT cards with several other local Visa and MasterCard branded cards, distributing:

- unemployment benefit
- child support, child care
- worker's compensation
- energy assistance
- foster care and adoption
- payroll
- tax refunds
- disaster assistance[40]

The state immediately recognised the complexity of combining EBT (restricted) funds with the above list of (unrestricted) funds, describing the differences thus:

- for EBT cards:
  - highly controlled, closed-loop, agency-owned 'restricted approach'
  - complex usage business rules and restrictions
  - restrictions on what cardholder can buy (specific food items, child care services, etc)
  - restrictions on where cardholder can shop (eg licensed participating merchants)
- for state or local government prepaid cards:
  - open-loop, consumer-owned funds 'non-restricted approach'
  - cash has no restrictions
  - any commercial merchant at any location can participate
  - no special registration needed
  - no credit checks as no credit extended – buying power limited to funds on card

Interestingly, JP Morgan Chase describes EBT funds (food stamps and emergency assistance) as 'agency owned' – eg state owned, while describing benefits (such as unemployment and child benefit) as 'consumer owned'. This is an important distinction in the UK context, which we address in chapter 4.

In the Utah State example, JP Morgan Chase introduced a UCard, which held up to five separate pots of money in one card, with one PIN. Spending rules and restrictions for each pot varied according to the fund in question. These remained in effect, and it was down to the individual consumer to select which pot they were spending from at the checkout. Point of sale machines were updated across the state to enable consumers to select which funds they were using. So, for example, an individual going in to an off-licence would be able to buy alcohol if they selected 'unemployment benefit' on the chip and pin, but their card would be blocked if they selected their food stamps (SNAP). UCards, like the cards they replaced, are also managed online, and a cardholder is able to see the balance and latest transactions for each pot of money on that card as a separate mini-account. Utah State adopted this system to streamline its multiple card system, recognising that the initial investment would be returned through savings in no longer having to issue and administer multiple cards. Moreover, it would create a far more user-friendly system for card users, only having to use one card and PIN rather than multiple cards for different shops and transactions. It would also encourage the concept of budget management and 'jam jar' accounting – many of those using the UCard would be unbanked, and the multiple account UCard was identified as a good way to encourage mainstream financial behaviour in this group.[41]

Federal benefits

So far, in this chapter we have reviewed the use of prepaid cards in the USA to distribute two types of state benefit – restricted (food stamps and emergency assistance) and unrestricted (eg child payments and unemployment payments).

However, in 2005 the US Treasury's Financial Management Service (FMS) launched a campaign for Social Security and Supplementary Security Income (SSI) recipients (approximate equivalents to Disability Living Allowance, Attendance Allowance and Income Support in the UK) to receive their payments by direct debit rather than the traditional cheque. This campaign was successful[42] but with around 4 million unbanked federal benefit recipients, the FMS realised it needed another alternative to cheques, which did not rely on the recipient having a bank account. Comerica Bank worked with MasterCard and Affiliated Computer Services to create the prepaid Direct Express® card (box 3). A pilot scheme took place in Illinois in 2007, and 3,000 people registered for a card. Of these, 80 per cent said they were satisfied with the card and 60 per cent said that the card saved them money on cheque-cashing fees.[43] The card was then launched in ten more states before being launched nationally in June 2008.

In 2010, the FMS announced that all remaining social security payments would be processed electronically by March 2013, with anyone applying for new payments from May 2011 receiving an electronic transfer (direct debit). This, they calculated, would save the treasury $1 billion over the next ten years. Although eight in ten people already received their benefits electronically, the remaining 20 per cent would have to move over to this system, essentially ending cheque payments. Anyone without a bank account would be given a Direct Express® card in order to receive payments electronically.[44]

Box 3

MasterCard Direct Express® cards

The Direct Express® card was designed in part to give people who had not previously had any interactions with conventional financial products, such as bank accounts and credit and debit cards, the opportunity to become part of the financial mainstream. The FMS knew that many social security recipients without a bank account often had to pay fees of up to $20 to cash the cheques they were sent. The FMS also projected that they could save as much as $42 million a year[45] by not printing and mailing paper cheques, and $1 billion over ten years – another key driver for launching the card.[46]

Another factor in deciding to distribute federal benefits on a prepaid card was to increase security for the recipients and reduce fraud for the Government. In 2009, 441,000 Social Security and SSI cheques were reported as either lost or stolen, which resulted in the FMS investigating 68,000 cases of altered and frequently endorsed cheques. The total cost of this to the FMS was $69 million. This also has an effect on recipients because they have to file a claim if they do not receive or believe their cheque may have been stolen, which causes a delay in them receiving the money they rely on.[47]

Unlike the state-distributed cards described above, the Direct Express® cards have very few fees – ATM withdrawal, transactions, balance enquiries, refused transactions and so on are all free. Only withdrawals and transactions outside the USA (like most regular debit and credit cards) have fees *attached.*[48] *The NCLC identified the Direct Express® card as an example of a good prepaid card programme for welfare recipients.*[49]

The Direct Express® card has reduced the stigma for card holders associated with the 'welfare cheque' as it looks and acts like any other debit card. Recipients have reported feeling 'a sense of pride and equal financial footing compared to going to a cheque-cashing provider with their benefits cheque'.[50]

According to a survey carried out by MasterCard Worldwide, 95 per cent of Direct Express® customers are satisfied with the card and 93 per cent said they would recommend the card to friends and family. A further 97 per cent said the Direct Express® card is a safer way to receive their benefits than paper cheques; 93 per cent said the card is more convenient than cash to make purchases; 91 per cent said the card makes it easier to pay bills; and 85 per cent said the card helps them manage their money.[51]

There are now 3 million people who receive their federal benefits on the Direct Express® card, which was launched in 2008.[52] *In keeping with the Government's plans to have all federal benefits issued electronically either to a bank account or a prepaid card by March 2013, the FMS is encouraging the 6 million federal benefit recipients who still receive a cheque to sign up to the Direct Express® card.*

Can we learn from the US example?

In the USA, prepaid has been developed almost exclusively for the distribution of state benefits, rather than in social care or other monetised service payments. Nonetheless, the USA holds some important lessons for the UK.

First and foremost, it is clear that using prepaid cards for unbanked or underbanked people claiming benefits could have significant advantages for the Government and the individuals themselves.

Prepaid cards for the unbanked and underbanked

Fortunately, the UK does not have the same scale of financial exclusion as the USA. Basic bank accounts were promoted in earnest for the unbanked from 1999, and in December 2004 the banking industry and the Government agreed to work towards the goal of halving the number of adults in households with no account of any kind. The baseline was set with reference to the Family Resources Survey of 2002–03, which indicated that 1.9 million households, containing around 2.8 million adults, lacked access to an account of any kind.[53] However, as the work of the Financial Inclusion Taskforce (established in 2005 in part to drive take-up of bank accounts) ended in March 2011, HM Treasury stopped releasing unbanked figures in 2010. The latest data available, therefore, from the 2009 Family Resources Survey, suggest there are 1.84 million individuals without a basic, current or savings account in the UK. Excluding savings accounts (which are not transactional in the sense that you cannot link them to a debit or credit card, or pay benefits into them), the number of people without a current or basic account rises to 2.52 million.

While this is a significant reduction from the 2004 baseline, there remain a large number of people who are unbanked in the UK. Moreover, these people are more likely to be low income, unemployed, in poor health, older and single parent families[54] – the key client groups for Universal Credit.

The 'unbanked' – those with no bank account at all – and the 'underbanked' – who may have limited access to mainstream banking but usually rely on micro-credit or loan sharks – have in the past relied on Giro cheques to claim benefits, which are then cashed at post offices. However, this system was scrapped in the summer of 2012 and replaced with the Simple Payment system, also known as the Simple Money Transmission Service (SMoTS) – a plastic card, which is handed in at PayPoints in return for cash.[55] PayPoints, usually located in local shops and some supermarkets and garages, enable people to pay their utility bills, top up mobile phones and meter cards, and buy bus tickets using cash. People can also put cash onto prepaid debit cards (which are already available from the likes of MasterCard), which they then use until it runs out. In theory, the Simple Payment cards would enable a claimant to get cash from a retailer with a PayPoint, which they could then use to pay bills (with cash) or indeed reload onto a prepaid debit card via the PayPoint.

Simple Payment cards are not prepaid cards as have been described in this report – they are not chip and pin enabled, for example, and do not have any intrinsic value or store personal information – they are instead simply a way in which people can withdraw cash linked to their DWP-held benefits account from a local PayPoint.

There is no information released by the DWP specifically on how those without bank accounts will receive Universal Credit when it is rolled out, but the assumption is that the existing system (using Simple Payment cards) will be used. Citizens Advice comments:

The [Universal Credit] explanatory memorandum mentions the new Simple Money Transmission Service (SMoTS) which is replacing the previous system of Giro cheques for a small number of recipients who still receive their benefits by that means, but it is entirely unclear whether the DWP is considering making the product available to Universal Credit recipients without a bank or other account.[56]

There is very limited information on this scheme as it relates to Universal Credit: 'This new service will involve the customer receiving a payment card which they can take to their nearest PayPoint, which are located in various local businesses, in order to receive their benefit.'[57]

The possibility that these cards will simply let people convert their Universal Credit payment into cash through a PayPoint is concerning. The Universal Credit is replacing several weekly or fortnightly benefits and will be paid monthly in arrears, to prepare those out of work for the financial discipline required when earning a monthly salary. In such a scenario, those using the SMoTS might be receiving a large cash lump sum once a month. This will not help with family budgeting, nor will it be particularly secure.

Moreover, by maintaining a cash-based withdrawal system with one-dimensional cards, the unbanked will not be able to make savings associated with shopping online, or pay bills with direct debits, and so it will have limited impact in encouraging claimants into mainstream financial habits.[58] Such cards will also not have the functionality that has interested the DWP: in September 2012 the department issued a public call for financial services providers such as high-street banks, but also mobile phone and prepaid card providers,[59] to develop products with in-built budgeting tools that would help people leave enough money to pay essential bills. These and other features such as online and telephone functionality, credit building, 'jam jar' savings and so on will be beyond the reach of these single-purpose cash withdrawal cards.

As Universal Credit is rolled out – a benefit relying on electronic transfers, online registration and account management – it would seem an opportune moment to introduce a more sophisticated card with greater longevity, such as the 'Bank Account Lite' cards, which allow for direct debits and standing orders. This would allow for the safer and more flexible spending of larger sums of money, and bring with it other important objectives associated with financial inclusion – including building a credit score and making and managing savings.

Other benefits of prepaid cards for benefit distribution

As outlined above, the use of prepaid cards in the USA for distributing state and federal benefits is primarily an option for the unbanked, who risk being left behind as the USA casts aside a paper cheque system and adopts electronic payments. This is now the same in the UK (albeit with far less functional cards), as cheques have not been issued by the DWP since mid-2012.

However, a second question is whether there is any value in prepaid cards being used to distribute benefits to those who already have bank accounts. In the USA, the NCLC concluded in 2011:

For a consumer who has a bank account, prepaid cards offer little if any advantage over direct deposit [direct debit]. Unless the consumer prefers not to use the bank account for receiving UC – because, for example, of problems with debt collectors or overdraft fees – the consumer is almost always better off with direct deposit.[60]

This opinion is, of course, influenced by the NCLC's findings on the range of transaction fees imposed on prepaid card users in individual US states. However, we have seen that prepaid cards need not have such fees attached – like the Direct Express® card – if the issuing bank designs it thus and/or providers (service providers, housing associations, utility companies and so on) are willing to absorb the extra costs in return for improved cash-flow and reduced collection costs. Nonetheless, even assuming that a prepaid card imposes no fees for its use, is there any value in using it instead of a regular debit card, for a benefits recipient with a bank account?

In fact, there are several possible advantages if those with bank accounts were to use prepaid cards: they could be used as a form of voluntary financial self-restraint; as a lower risk form of direct payment of housing benefit; and as a means to gain greater independence. For local authorities, they could become an importance source of market intelligence for care and support service commissioning.

Encouraging self-restraint

Recent research from the Social Market Foundation looking at the impact of Universal Credit on low income families found that the majority of those consulted did not like the idea of the planned monthly benefit payments – primarily because of the budgeting challenge this might present. Many said they could restrain their spending if they had smaller and more frequent benefit payments, and budgeted weekly or fortnightly. Having a lump sum at the beginning of the month increased the risk of running out before the end.[61]

Prepaid cards could be used as a means of better managing this budgeting problem. For example, people could be given the option voluntarily to limit the amount they spend using the card weekly or fortnightly. The full amount of Universal Credit would still be paid monthly onto the cards, but a cap could be imposed on the maximum amount that could be spent in any one week. A cap could also be placed on ATM cash withdrawals, if the benefit holder so wished. This is similar to the 'self-restraint' budgeting strategies already adopted by some of the people we spoke to with low incomes during this project – people reported leaving credit cards at home on purpose to remove the temptation to over-spend while out shopping, and taking out exactly the amount of cash they would need.

Another example of self-restraint might be for people with a gambling addiction – who could decide to cap the amount they could spend from their card in any one day to limit their ability to gamble with their income. More radically, they might opt for a block on their card being used for online gaming sites, to remove the temptation entirely. As Universal Credit will be given to one individual in a household (the man in two-parent households in an estimated 80 per cent of cases[62]), there have been concerns raised that women in the household might not have access to the benefit money they had otherwise been able to spend on their children. This voluntary blocking or capping option could be particularly important, therefore, for mothers wanting to ensure their benefits are spent in particular ways.

Making direct payments of housing benefit

Before Universal Credit is fully rolled out, six demonstration projects are testing the direct payment of housing benefit to tenants. The benefit will be paid monthly to the claimant, rather than going straight to the landlord as is usually the case. This is in preparation for when all housing benefit will be paid directly to claimants as part of the Universal Credit. The projects will look at the appropriate level of safeguards needed to help secure landlord income streams, if tenants fall behind on their rent.[63]

We carried out a survey of 2,000 members of the public as part of our research for this project, and found 75 per cent were against the idea of paying housing benefit directly to individuals instead of the landlord. People in our focus groups were also against the idea – no one could see the benefit of doing this: at best, it would create an additional burden on individuals having to receive the benefit then hand it directly over to their landlord. At worst, it could leave people open to arrears and eviction if families receiving the money spent it on something else (another pressing bill, or food) before the rent was due. As housing benefit will eventually be wrapped up within the larger Universal Credit payment, many felt it was entirely possible that families would accidentally over-spend and not leave enough in their benefits pot for rent. A recent report by the Social Market Foundation, based on interviews with 30 low income households which were social renters, came to similar conclusions – the majority were opposed to receiving their housing benefit directly.[64]

However, if housing benefit was distributed on a prepaid card in these pathfinders, it would be possible to ensure that this money was only spent on paying rent. There would be no need to develop 'triggers' (as the pathfinders are doing) to identify when a person goes into arrears and landlords needed to be paid directly, because a prepaid card would be able to flag up instantly if the housing benefit destined for the landlord was spent elsewhere or if a rent payment was missed – allowing for action to be taken immediately, without a family having to accumulate arrears first.

In the longer term, a similar system could be set up for Universal Credit payments. If payments are loaded onto a prepaid card, then the accidental or planned misuse of housing benefit on something other than rent could be identified straight away. More radically, it could be sidestepped altogether by ring-fencing a set amount within the larger Universal Credit payment and designating it to be used only for rent. This money would then be protected from daily spending – if the merchant category code (MCC) used for the landlord or housing association was linked to a set amount within the card it would only be available to spend on this one agency.

Gaining market intelligence

As outlined in chapter 2, one important benefit for local authorities using prepaid cards for distributing direct payments in social care is that the cards can generate a source of market intelligence. The cards show what people are spending their direct payments on and where, and this can guide commissioning strategies and track demand for different services. There would be a similar benefit if prepaid cards were used nationally for Universal Credit claimants. Data on what and where people spend could be hugely valuable in a range of fields – to better understand the 'poverty premium' and limited access to retail and financial services among low income families; to help quantify the additional costs of living associated with poor health and disability; to gain insights into how interest rates or changes in food and fuel prices affect family budgeting; to isolate public health challenges in different parts of the country – and so on. If such data were suitably anonymised they would provide a rich source of evidence on family spending, which could help improve a variety of policies – from health to local regeneration strategies.

Gaining independence

Currently, those who receive benefits but who may not have the capability to manage their own finances (for example, those who have a learning disability or mental health needs, or are very old) often have no control over their money – the full benefit amount is passed to a relative, friend, carer or local authority via an 'appointeeship'. The appointee deals with the DWP directly and pays bills and manages other spending for the individual in question. Often a small amount in cash might be passed to the individual for discretionary spending, akin to pocket money.

A prepaid card system would be useful in this situation in two ways. First, prepaid cards could be given to appointees, to ensure they were spending the funds they are responsible for appropriately. This would be an important tool to guard against financial abuse among these more vulnerable groups.

A second, more ambitious use could be to enable people to regain or maintain control of their benefits – and not hand it over to an appointee. Many thousands of young adults with learning disabilities move to supported or independent living each year, leaving their parental home or residential care. They need to learn life skills to do this, and an important aspect of this is to learn financial management and household budgeting. A prepaid card could be an important tool to help people learning to live independently budget and spend for themselves – but with the safety net of someone ensuring the card was not misused by someone else or spent very quickly at the beginning of the month, for example. This could take the shape of a non-intrusive monitoring approach, which gives individuals the opportunity to test out their budgeting and life skills in a relatively safe environment. The card could also be cancelled and replaced quickly if it were lost or stolen, while there would be no opportunity to become overdrawn or rack up debts.

Monitoring or controlling benefits spending

As this report was being finalised, it was revealed that the Secretary of State for Work and Pensions, Iain Duncan Smith, had asked DWP officials to look into the payment of benefits via smart cards (essentially prepaid cards) rather than cash for 'troubled families' to ensure benefits are paid on essentials like food, rather than to fuel substance abuse.[65] Troubled families is the term now used to describe a group of approximately 120,000 families who are associated with poor health, unemployment, low income and anti-social behaviour, and who use a high level of state resources. The definition and identification of these families has been widely criticised, but – leaving this wider issue to one side – it is clear that this policy idea is a more radical and controversial step than the application outlined above – moving from a safeguarding and enabling use of the cards for distinct vulnerable groups to a more punitive application among a wider group identified through more subjective indicators.

The practicalities

Before the news emerged that the Government was considering introducing prepaid cards to pay benefits, Demos had itself been exploring this issue for this project. The first thing to bear in mind is that there are practical limitations on how spending might be controlled. As outlined above, prepaid cards can be blocked in individual shops (such as casinos or off-licences), but cannot be blocked for specific items, so someone with a prepaid card can go to a supermarket and buy alcohol, cigarettes and scratch-cards. In the USA, this is being dealt with by checkout staff – who have manually to separate people's purchases into non-approved and approved items, which people can purchase with food stamps.

In Australia, the Basics card (the system which apparently inspired Duncan Smith to look at the application in the UK)[66] can be used to purchase food and clothes in government-authorised shops, however, only 50–70 per cent of the funds on the card is controlled in this way. In theory, this would get around the 'mixed purchase' problem (buying approved and non-approved items in one purchase) as there would be an uncontrolled amount on the card to spend on non-approved goods. Also, the large Australian supermarket chain Woolworths (one of the Basics card's approved retailers) separates its food and alcohol retail arms, so there are food-only points of sale (checkouts). Nonetheless, it is possible that when the uncontrolled funds have run out, and in stores that do not separate their food from other items, it may be down to the individual cashier to remove the non-approved items from an individual's shopping basket when using the Basics card.[67]

It is unlikely the UK would take such a route – the potential for delays and embarrassment at checkouts, not to mention the risk of harassment of checkout staff policing the system, would make this seem somewhat impractical. However, the DWP has yet to explore the practicalities of this policy and may well have a different solution in mind.

The bigger issue

These practical issues to one side, it is clear that there are significant moral and ethical implications of monitoring and controlling spending, made possible by prepaid technology, which would need to be explored if such a policy was rolled out.

Demos also explored this issue, to better understand where the public, practitioners and policymakers stood on the ethical implications of stopping certain social groups from buying certain items. Unsurprisingly, responses to the idea were at first glance highly divisive. However, when the issue was debated in greater detail there emerged a more complex spectrum of opinions, depending on the group and type of spending in question. In this section, we present our findings from focus groups, expert workshops and a survey of the public on this policy idea.

Many focus group participants we consulted during this project felt that the ability to monitor benefits spending was a negative development, with a distinction drawn between personal budgets and benefits – the latter being a person's private money to spend as they wish. However, on further discussion, opinions swung towards greater control of some groups' benefits spending – gambling and drug addicts, alcoholics and parents in contact with social services were all identified.

However, although our focus groups suggested there is a greater appetite for controlling benefits, these were only snapshots of opinion among small groups of the public. We decided, therefore, to commission a new survey of just over 2,000 members of the public, with a roughly equal balance of age groups from 18 to 65+, equally spread across the country. We asked them a series of questions related to the control of benefits spending for different social groups and different types of spending. The questions and full results can be found in appendix 2.

The results clearly suggest there is public support for this form of control, but it varies according to the group in question and type of spending. In total, 59 per cent of the public were in favour of some state control over benefits spending and 41 per cent were against. When asked which groups should have their spending monitored or controlled, only 13 per cent said no one; 87 per cent selected at least one of the groups we identified: those with gambling or substance addictions (77 per cent), those with criminal or anti-social histories (69 per cent), and those with learning disabilities or mental health problems (60 per cent). A third said those claiming unemployment sickness benefits should also have their spending controlled. Similarly, only 13 per cent said no *types* of spending should be controlled; 87 per cent identified at least one area on which they believed benefits should not be spent. The most common were 'illegal items' (such as drugs, weapons – 78 per cent); gambling (68 per cent) and things that are bad for your health, including smoking and alcohol (54 per cent).

However, we should not take these results entirely at face value. It was interesting to note, for example, that focus group participants tended to support the idea of *other people* (particularly younger people) having their benefits monitored, but not themselves: 'I would not worry about benefits monitoring – I only spend mine on food. But it's the younger generation who might be mis-spending it – not people like us.'

In particular, participants felt the state had a role in ensuring child benefit was spent responsibly, and some talked more widely about people who were not able to manage their money. The feeling in the Merton group was that for 'people of sense' – people like them – there would be no need for interference and oversight. For others, there could be a spectrum from monitoring to encouraging responsible or healthy eating and spending, pro-actively penalising or preventing people from mis-spending. It is important to remember, therefore, that the wider public might well support 'other people' having their benefits controlled, but would baulk at the idea that they themselves should have their spending controlled.

Of course, not everyone we consulted supported the idea of controlling benefits spending and many foresaw significant problems with such an approach. For example, focus group participants suggested the cost of implementing a national scheme would be too high – while it was recognised the prepaid technology would make such monitoring straightforward, the rules around who was monitored, how and why (linking it to health and social care, or criminal justice) would be complex to implement. One participant suggested that placing too many restrictions on the cards' use could also create a 'black market' around, for example, alcohol and cigarettes (indeed, the 'cashing' of food stamps had been a known problem before prepaid cards were introduced in the USA). Some also recognised that it might represent a step on a slippery slope towards increased government control over people's behaviour.

The experts and policymakers we consulted were very concerned by this. In Newcastle, for example, experts flagged the ethical implications of the poor having their spending scrutinised more than the better off. One participant spoke of a culture shift from the Victorian notion of the 'deserving' poor – when it was completely clear that those providing benefits should decide both who should receive them and what they should receive (eg handing out clothes and shoes) – to our current conception of benefits. He asked the group to consider whether the likely direction of policy meant we had now reached another point of culture shift (back to a more Victorian conception of welfare).

The expert group in London came to similar conclusions, and stressed the wider philosophical questions raised by prepaid cards in relation to the level of monitoring and restrictions that can acceptably be placed on individuals' spending. Some questioned the desirability of tracking benefit recipients' spending habits, especially when people on higher incomes are not monitored in this way.

The broad scope of the new Universal Credit was felt to be a complicating factor in differentiating between groups that might benefit from prepaid cards and those that would not. Many Universal Credit recipients are in work, it was pointed out, and one member of the London group felt that those in work would therefore be 'shocked and appalled' at the idea that their spending habits could be monitored or restricted in any way. Alternatively, if monitoring occurred on a case-by-case basis, there is a risk that a two-tier system will emerge (possibly along the lines of the 'deserving' and the 'undeserving' poor) based on who would need to have their spending monitored and controlled, and who would not.

However, the London group were generally more equivocal about the prospect of controlling benefits spending than their Newcastle counterparts. For example, the London group agreed that for the most vulnerable individuals, monitoring of spending could be helpful and effective, and while blocking the spending on some items was felt too punitive, many saw the benefits of positive nudge-type strategies, giving discounts to incentivise individuals to select certain items or services over others. Some group members felt that even this bordered on being overly statist ('nanny state'), especially as it is not clear where the line should be drawn between nudge and control. In the USA, some states are much more authoritarian than others about restrictions on food stamps (eg one state blocks fizzy drinks).

Some members of the group also noted the potential 'image problem' of discounts for benefit recipients, when they were presented in the media (eg people on benefits getting a better deal). Other participants countered that discounts are a perfectly reasonable way to counteract the 'poverty premium' or the extra costs of living with a disability – and are not showing undue preference to the poorest. The group agreed that incentivising education and skills (eg by offering discounted college courses in areas where unemployment is high) would be generally accepted as a good thing. Prepaid card discounts could also be a way to contribute to local regeneration by ensuring that money is spent in the local community, akin to the 'Brixton Pound' by given discounts in local retailers.

In Leeds, our experts were particularly concerned about the lack of accountability in benefits spending, and wondered whether prepaid cards would help with this. Some cited examples of how Attendance Allowance and Disability Living Allowance, which are not checked, could go directly into another's bank account. One member of the group estimated that 75 per cent of Attendance Allowance payments were not used for their intended purpose, and that only 60 per cent of Disability Living Allowance recipients use the money 'well'. If all benefit payments were on one prepaid card, audit teams and care managers would be crucial in preventing inappropriate spending, such as payments to loan sharks, which already occurs (one member of the group had seen this happen with Post Office cards). The problem of competing agencies also came up in the discussion, for example the hypothetical conflict between the DWP and national debt advice agencies over how much people should be able to spend of their benefits in paying off certain debts.

When considering the more specific question about the extent to which spending behaviour should be regulated, the Leeds group concluded that a system that was appropriate for as many people as possible was desirable, to avoid the ethical issue of choosing different limits for different social groups. Interestingly, the group also felt a prepaid card system for benefits ought to also allow contingency payments (it was pointed out that charities currently provide people with cash in emergencies). Contingency payments are already common with direct payments, where someone is able to over-spend by 10 per cent or so (depending on the area). This reflects the fact that the resource allocation systems used for deciding how much a person is paid for their social care needs in a form of a direct payment is not a precise science and can be inaccurate. The idea of providing a small emergency fund for benefits users through prepaid cards is an interesting idea and perhaps one to explore as responsibility for the Social Fund and emergency payments transfers to local authorities to establish their own local systems.[68]

Overall, it became clear that some control over some types of benefits spending for some groups would be relatively uncontroversial – as one MP reflected, it was not 'inhumane' to prevent a gambling addict from fuelling his addiction by using online gambling sites and increasing his debts.[69] For substance and alcohol abuse, blocking cards from being spent in off-licences was seen by some as enabling recovery, not as a punishment.[70]

However, the risk that this would be the thin end of the wedge – opening the door to ever greater levels of government control over how people spent their benefits income – was for many reason enough to reject this idea in its entirety.

It is, however, vital to discuss what is and is not practicable and acceptable in a modern society where individual liberties are highly prized. The recent news that the DWP is planning to use prepaid cards to control the spending of troubled families suggests that technological advances have facilitated policies that have run ahead of the public debate on these issues. The limited discussions carried out for this project are the first and so far only public testing of this policy and airing of the ethical issues associated with it.

Overview

In this chapter we have reviewed how prepaid cards have been widely used in the distribution of welfare benefits for people without bank accounts in the USA. This seems to be the most sensible application for prepaid cards in the future in the UK, as the Universal Credit is rolled out. The Government's plans on this front remain sketchy, but a fully functional prepaid card (rather than a basic cash withdrawal-type card) seems the best solution to ensure the unbanked gain access to mainstream financial services and benefit from online shopping and direct debits to reduce their living costs.

Prepaid cards also offer a range of benefits for those with bank accounts, including Supporting People's budgeting and helping some groups live more independently. The monitoring or control of benefits spending using prepaid cards remains controversial, however. As the Government seems to be considering this in a limited way already, it is important that it undertakes proper consultation, debates the ethical implications of controlling one group's spending and not another's, and considers the unintended negative effects (such as an increase in black market goods and doorstep lending) such policies might create. Technological advances have made such policies possible, but from the varied feedback we have had on this issue it would be wise to test them against expert opinion before they are implemented.

4 Further ambitions

In this chapter we look beyond the use of prepaid cards for the unbanked and underbanked in the distribution of Universal Credit, and consider longer-term and more ambitious applications.

Integrating cards

The experience of the USA in co-housing similar forms of payment onto one card is an important lesson for the UK, particularly as personal budgets are rolled out in several new service areas. In the very near future, we will certainly see growing numbers of disabled and older people with personal budgets for care and for health, and in the longer term perhaps also for any children's services they have, or housing support. Thinking ahead to how one prepaid card might be used to distribute two or more direct payments for personal budgets is vital for local authorities considering using this technology, and Kent Council – ahead of the curve in its thinking – is an important example to learn from.

Case study 4 The Kent card – integrating different budgets

Kent County Council was the first local authority to begin using prepaid cards for direct payments, in 2007. The card was developed by the Council in partnership with the Royal Bank of Scotland, and then piloted in Kent. The Kent card was originally introduced for adult social care direct payments, and the Council is now looking at extending this card to children's services. In addition, it has a separate prepaid card with Citibank, which staff use to distribute funds to asylum seekers. The reason for the two separate cards is that EU *regulations prevent the Kent card being used for payments to asylum seekers:*

We couldn't use the preloaded card for asylum seekers because the card is set up to pay people where we are controlling the use of the card, whereas [with] asylum seekers, we are not really going to be monitoring those cards.

Kent Council's ultimate aim is to have one card that can be used for all council services – 'one card for one council' – and staff are currently looking around for opportunities to use them other than for direct payments (eg for transport). The new cards would be offered as a prepaid card, though not necessarily all on the same prepaid card (the existing Kent card):

If people do have different funding streams, then probably having it all on one card would make it easier for them to manage.

The benefits of prepaid cards

Kent Council's main motivation for introducing prepaid cards was the ability to streamline the process of direct payments. It has also allowed the Council to improve the direct payments service and offer more support to payment users because it is more closely involved with people's daily spending, and can spot any problems they are experiencing quickly:

If they have it in a bank account, we can't give any of that support. So it improves the service for people.

Kent Council staff have not yet reviewed the financial benefits of the prepaid card programme. They do not expect to find that it has saved huge amounts of money, but this is partly because they are operating a hybrid system at the moment, where some people have their direct payments paid into a bank account, and some receive a prepaid card. This is preventing the Council from realising the full benefits of prepaid cards –

ideally, it would want to use a single system, but it is concerned that this would restrict choice for service users:

There is a choice between having a bank account for your direct payment or having a prepaid card, and there is a choice about what to purchase – and that debate is still ongoing.

Integrated budgets

As part of wider piloting of personal health budgets, NHS Kent and Medway is using the Kent card to integrate personal budgets in health and social care. The NHS wanted to explore how it could use an existing local authority system to make direct payments, as this is not something that they were really prepared for:

As a pilot site working with the Department of Health, we then started to look at [how] the future is going to be about health and social care integration, we really should be looking at how an integrated budget could work.

There are currently only three people receiving an integrated budget as a prepaid card. Kent Council staff are keeping the number small at present, so they can work to improve the system for the future. The three participants have fairly complex needs across both health and social care. The pilot is still in the early stages, but Kent Council staff believe that integrated budgets will provide a much easier system for service users:

They have got all the money in one place, and they can use that to meet all their health and social care needs.

Problems

One problem that Kent Council has encountered is service providers complaining that the cards cost a lot to process, compared with having a block contract with the local *authority. This, the staff point out, is more of an issue associated with personal budgets – an end to block contracting and a move to individual purchasing. This would occur with or without prepaid cards, and is something providers must adapt to:*

Providers have said, through this, it creates more work for us… What we have said to them is that personalisation is here to stay, people do want direct payments, and they need to think about their business model; are they geared up for that?

In order to accept card payments, providers in Kent have been required to become Visa enabled. This has caused some inconvenience to providers, who have to pay for card terminals to be installed and to absorb card-processing fees. This has had unexpected benefits though, as providers (eg domiciliary care providers) are now able to offer card payments (debit, credit and prepaid cards) as an alternative payment form to all service users – not just those with a prepaid card. Many had previously only accepted payment by cash or cheque.[71]

A feature that is lacking from the current card is the ability to make online transfers from one card to another. Many users want this function so they can check their balance online and pay personal assistants as an ad hoc payment, rather than a regular direct debit. The main barrier to this is that the issuing bank – the Royal Bank of Scotland – is not willing to invest in developing the card. Kent Council has its own prepaid card steering group, including RBS and local authority staff and cardholders, whose members are working to resolve issues with the cards and improve the service.

Source: Demos interview with Kent Council project manager (see appendix 1)

As we can see, the concept of an integrated card (co-housing two types of personal budget) is still in its infancy in the UK, with three care users in Kent acting as the pioneers for this new way of working. Early indicators are promising, but it is too early to tell whether such a system will cause administrative problems in future. Nonetheless, in the USA it was clear that the primary barrier to co-housing two or more types of funding was when these types had different or conflicting levels of control associated with them (eg one was restricted and one was unrestricted). With personal budgets (whether in social care, health or children's services), a level of monitoring and restriction will always be required, so the chances of them being successfully administered in one card is higher. As more and more councils plan to integrate their health and care systems with pooling of budgets, staff and commissioned outcomes, so the administrative distinction between the two (at local authority level) will be reduced, and will be reflected in the lack of distinction required within prepaid cards.

Integrating personal budgets and benefits

As outlined in the introduction of this report, prepaid cards could hold the key to achieving the more ambitious vision of not just bringing together two or more types of direct payments, but actually straddling the fault line between the DWP and the DH by combining direct payments and welfare benefits onto one card.

While the USA does not use prepaid cards for direct payments, attempts by US state governments to integrate their EBT cards (which are restricted use) and their state benefit cards (with unrestricted use) in 'co-branding' is clearly similar to the processes that would be required to integrate direct payments (restricted) with benefits (unrestricted). It is also, in fact, very similar to the process already taking place for care users who need to make a private contribution to their care, because of means testing rules. As outlined in chapter 2, Bury Council in particular predicted this element of prepaid cards would be a challenge, as a person's direct payment would be restricted, while their private 'top up' contribution would not be.

This may seem a step too far for the current, highly separate systems of benefits and services. However, it is worth bearing in mind that one of the forerunners of today's personal budgets were individual budgets – which were more ambitious when it came to integrating different funding streams. When they were piloted in 2006, they integrated social care funding with Independent Living Fund, Access to Work and Disabled Facilities Grant funding, to name a few. In fact, they are more like today's Right to Control pilots than the current personal budgets in health and care. While the intention, after the Individual Budget pilot, was to include health funding into this wider integrated funding stream, this ambitious goal never came to fruition and the development of social care budgets took off while health developed separately and at a slower pace. However, the Government is working hard to bring these streams back together. The Right to Control pilots, launched in 2010, also represent a return to this more ambitious vision, testing how six funding streams can be brought together for disabled people, spanning the divide between monetised services (social care direct payments) and grants (similar to benefit payments):[72]

- Access to Work
- Work Choice
- Supporting People
- the Disabled Facilities Grant
- Adult Social Care
- the Independent Living Fund

We have not, as yet, grasped the biggest challenge: stepping across not only separate departments but also national and local funding streams and payment architecture, and bringing mainstream DWP payments into this regime. But the advent of Universal Credit – combining six separate welfare benefits – makes this all the more possible as it aligns hitherto six funding streams into a single monthly payment.

In the USA, the complication of combining several restricted and unrestricted funding pots into one card is overcome by passing the responsibility to individual users, who must (through converted chip and pin machines) select which funding pot they want to use for any given purchase. This means individuals have to select if their purchase is a 'food stamp' (restricted) purchase or an unemployment benefit (unrestricted) purchase, for example, at the till.

This is unlikely to be viable in the UK for a number of reasons – first of all, many card users will be older and disabled people, who may not have the ability to select between pots according to their purchase. Moreover, such a system requires a significant investment in new chip and pin machines to allocate purchases to different pots with different spending regulations. This might be achievable in the USA, where food stamp shops already have dedicated and state-issued EBT machines, but change on such a large scale in the UK is not practically or financially feasible.

A further problem exists when it comes to mixed purchases. Restrictions in the USA, like in the UK, are implemented by blocking specific MCCs, which are allocated to types of shop; therefore, a type of shop (like an off-licence) can be blocked. However, the technology is not developed to be able to block purchases of specific individual items. So while a card can be blocked in an off-licence, it cannot be blocked from buying alcohol in a supermarket (assuming the supermarket is an approved MCC). In the USA, this currently causes delay and potential embarrassment at the checkout, not to mention placing significant responsibility on the checkout staff, who have to pick out the 'non-eligible' items from a person's food stamp shop (eg alcohol, pet food) and ring them up in two separate transactions.

Having consumers select the pot they are using at the point of sale does not overcome this problem: if a transaction mixes restricted and non-restricted items, the consumer will still need to have two separate transactions and select the pot being used from a single card, and it is possible that a consumer may not be sure which pot to take their purchase from (if they have several). This could cause confusion, delay and inconvenience during shopping.

We must take as read that the wholesale replacement of chip and pin machines to enable people to select different pots of money from their prepaid cards is not feasible. There is an opportunity, however, for the UK to learn from 'smart' co-branded cards currently being investigated in the USA. These automatically identify which pot to take funds from based on the type of retailer (MCC). While they do not overcome the 'mixed purchase' problem outlined above, they may potentially be useful in the UK, because in theory there would be a clear demarcation between the type of purchases coming from ring fenced, restricted funds (direct payments associated with a specific service, such as care or health) and unrestricted funds (all other benefits). In other words, wherever the MCC was a care agency or day centre, for example, this would be taken automatically from the 'social care direct payment' pot on a dual pot card.

This would not be so straightforward, however, where private care contributions come into play – people using their own money to top up the shortfall of their personal budget. Many people also use benefits such as Disability Living Allowance to make care-related purchases and supplement their personal budgets. Moreover, as people become more creative with their care plans, so the chances increase that their direct payments will be used to purchase items that could be less easily identified by care-related MCCs – such as visits to leisure centres or gyms, or computer equipment purchases.

These logistical challenges aside, it is not beyond prepaid card technology to create a dual use card, co-housing restricted and unrestricted funding. One can envisage, for example, a system where a person's care plan is broken down into relevant MCCs, which when purchased by the card reduce personal budget funds accordingly. When personal budget funds run out, all purchases revert to the unrestricted pot, reflecting the real life situation of people topping up their personal budgets with their own resources. Alternatively, some MCCs (eg a domiciliary care provider) might have a particular payment rule applied – eg 50 per cent coming from the personal budget pot and 50 per cent coming from the private funds pot, and so on. Box 4 presents an example of how dual cards might apply rules to separate funding pots.

Box 4 **How dual cards might apply rules to separate funding pots**

MCC specified on care plan?

YES– *Are there sufficient funds in the personal budget pot?*

YES – money comes from the personal budget pot

NO – money comes from non-restricted pot

MCC specified on care plan?

NO – money comes from non-restricted pot

Could prepaid cards be used to encourage a savings culture?

Although we have focused in this report on prepaid cards in the context of personal budgets and benefits, prepaid cards already exist in many other guises in the UK – top up Oyster cards and many shop vouchers now come in card form, for example, which are used at their respective shops. Many shopping malls now also have their own cards, which can be used in all participating shops in the mall. Some shops have gone further – Asda, for example, has a prepaid card designed to help its customers save – rather than spend – at the checkout. Box 5 describes some of the Christmas savings schemes that are available.

Box 5 **Christmas saving schemes**

This form of saving allows small payments to be added to a card or stamp to be 'locked away' until the expensive Christmas season. While there is no explicit interest rate, different shops offer different rewards for saving the money until a date near Christmas. Often these additional payments are equivalent to higher rates of interest than are offered at conventional banks. However, there is less security with these cards, and should the shop go bust, there is usually no protection.[73]

Some of the main supermarkets still use stamps – for example, in Tesco and Morrisons people can buy £1 stamps from self-service machines near the checkouts, which are *redeemed in store. In Tesco, if shoppers saves the maximum of £49 and redeem it in a single transaction during December, they get a £1 bonus, equivalent to 2 per cent.*[74] *In Morrisons, the maximum saving is £97; if redeemed against purchases of at least £100 in a single transaction in November or December, shoppers get a £3 bonus, equivalent to 3 per cent.*[75]

Asda now has its own prepaid Christmas Saving card. Over the course of the year money is paid onto the card at checkout, with a maximum balance of £144. After a 'bonus date', dependent on the amount of money saved, up to £6 is added to the amount. This money is then spent between the bonus date and the end of the year, but can only be redeemed in exchange for goods bought in Asda, and not as cash or spent elsewhere. There is no limit to the number of cards that can be used.[76]

The Post Office also has a similar card, which can be used to save any amount of money up to £1,000, in payments as small as £2 loaded onto the card at the Post Office desk. From 1 November to 31 January you can spend this money in participating high-street stores, or by having your money converted in branch to One4all® gift cards, which can be spent widely or used as presents. Only one card is allowed, and if you withdraw your money early you pay a £5 penalty. Club members who participate in the scheme throughout the year are rewarded with a loyalty bonus booklet of special offers from participating retailers.[77]

The schemes described in box 5 are rudimentary and less generous forms of the Government's (now scrapped) matched savings schemes. The Savings Gateway and the Child Trust Fund encouraged families on low incomes to make savings, with the former promising that the Government would give 50p for every £1 a person saved (in months where no withdrawals were made), up to £300. The idea was to encourage a savings culture and build assets among families who more often lived from hand to mouth, but the Government announced in 2010 that such a scheme was no longer affordable.[78]

This is not to say that the Government might not revisit such a scheme later in this parliament, given its potential merits. The Savings Gateway concept was particularly generous – a matched rate of 50 per cent – but it is clear from the popularity of supermarket schemes paying 2–4 per cent that less generous arrangements would still be valued, particularly among those with the lowest incomes, assuming they were convenient and easy to operate.

There is, therefore, a potential opportunity for prepaid cards to offer just such a simple savings route, which – assuming the Government decides to use prepaid cards to distribute benefits to the unbanked or otherwise financially vulnerable – could be readily targeted at those on low incomes most in need of matched savings.

If a fully functional prepaid card is used to distribute Universal Credit, a function similar to the Asda or Post Office savings reward scheme could be introduced alongside it with the card being the conduit. For example, if a family were to save £10 of their Universal Credit payment (essentially be left with an underspend of £10 at the end of the month) they might receive £2 extra in the following month's benefit transfer as a bonus. If they managed to save £10 each month for a year, they might receive an end of year bonus, and so on. The Government need not be the only source of these matched savings. There are other organisations standing to benefit from prepaid cards, such as housing associations, which might also contribute to the scheme as a means of encouraging individuals to take up the option of prepaid cards. As housing benefit will soon be paid directly to tenants (rather than landlords), housing associations will run the risk of families not paying their rents and accumulating arrears – a risk eliminated if that family has a prepaid card and the funds are voluntarily ring-fenced or paid via mandate (as described in chapter 3). Utilities companies and even local authorities might also see the benefit and contribute, as the 'Bank Account Lite' type cards have direct debit functionality, which would ensure the timely and reliable payment of bills (gas, electric, water, telephone, council tax etc) among those who would hitherto be paying their bills by cash at PayPoint counters.

It is easy to see how such a system could be bolted onto benefits payments through prepaid technology and it would target exactly the right groups – those on low incomes and those furthest from financial services. As the Financial Inclusion Taskforce discovered, many people choose to remain unbanked because of their caution or dislike of the banking industry.[79] Prepaid cards, issued by the Government for receiving benefits, would be far enough removed from retail banking to introduce the sceptical unbanked to not only non-cash transactions but also the concept of a 'savings account with interest'.

The Social Fund and emergency loans

Another potential application for prepaid cards is in the distribution of emergency payments, as is frequently used in the USA, particularly after natural disasters. The existing regime of the emergency payments in the UK – in the form of community care grants and crisis loans – will be abolished from April 2013 and replaced by a range of new local provision as responsibility for providing emergency financial support moves to local authorities.[80]

There have, undoubtedly, been concerns raised about this move from a nationally consistent scheme to local provision: some fear that the lack of resources at local level and the end of ring-fencing will lead to local authorities spending the funding to plug gaps in services.[81]

Nonetheless, prepaid cards could prove an important tool for local authorities as they investigate different local emergency payment options. The benefit of such cards is that they can be preloaded with funds and issued to people in emergencies, to be used immediately and without any delay. If they are lost or stolen, similarly, they can be cancelled and reissued immediately – features which are particularly attractive in situations where emergency loans are used.

We know from our FOI request that some local authorities are already using prepaid cards for emergency payments for foster carers and asylum seekers, and some mentioned that they would be looking at prepaid cards in the next 12 months as they take on responsibility for former Social Fund payments.

Overview

In chapters 3 and 4 we considered some future applications of personal budgets – in the distribution of Universal Credit and, more ambitiously, as a means of integrating direct payments with benefits payments as well as combining this with savings or emergency payment schemes.

Prepaid cards to distribute benefits to the unbanked seems inevitable, and other groups (eg those at risk of financial abuse, or those who want voluntarily to ration their spending) might also benefit from this system. The Government's plans to ensure the unbanked can access the Universal Credit system seem underdeveloped, but the information available suggests the Government is considering a card akin to those already used for utility bill payments at the PayPoint network, which have very little flexibility or functionality beyond withdrawing lump sums of cash (see the section on SMoTS, p 65–66).

If we assume that a superior system is also on the table – one similar to the existing prepaid cards used for direct payments in social care, which have the functionality of a debit card – then the possibilities of integration with other features becomes feasible.

For example, one might envisage personal budget users, accustomed to using their prepaid cards, opting to have their Disability Living Allowance (and perhaps even their Universal Credit) put onto the card to streamline their daily transactions. For the unbanked receiving Universal Credit, the opportunity to make savings with rewards (imitating interest that a savings account might pay) without having to engage with the banking industry could be an attractive option. For care users with learning disabilities or mental health needs, a prepaid card combining a personal budget, Disability Living Allowance and other benefits, and a savings reward option could prove an important avenue to encourage independence and life skills.

However, we are a long way from a new era of integrated budgets and the cashless society – if not technologically, then culturally. During the research for this project we met people, such as those in supported living, whose lives were almost entirely paper based: cash, cheques, written receipts and rent books. Many of those on low incomes, renting privately or otherwise on the edges of the labour market, get paid and in turn pay their rent and bills in cash. For such groups, 'jam jar' budgeting is a literal term – cash is visible and can be physically apportioned to pay for different items. For those without financial or other life skills this is an important way to manage one's budget.

For such groups, the transition to cashless and electronic transfers more generally will be a significant challenge. But it is a challenge that the Government – in making a huge financial commitment to revolutionise the benefits system with electronic transfers and to widen the role of direct cash payments to replace a variety of directly delivered services – must take seriously. Awareness-raising campaigns clearly will not be sufficient. Phone-based and face-to-face support, perhaps even outreach training, will be necessary for harder to reach groups to reap the full benefits associated with electronic transfers. Within that, the specific benefits prepaid technologies have to offer in moving people into mainstream financial products need to be considered carefully. In the following chapter, we bring together our findings and present a series of recommendations on the future application of prepaid cards.

5 Conclusions and recommendations

During this project, we have reviewed a range of evidence from the UK and abroad on the current and potential future uses of prepaid cards. On the one hand, we have had described to us – by card users and local authority commissioners – the very real benefits prepaid cards can offer in a personal budget context. For the card user, it means considerably less administration and reporting back to the local authority, and a simpler payment system for carers managing budgets for their relatives. However, for the local authority the benefits are even clearer – the potential for cost savings through using prepaid is substantial, with far less paperwork associated with the administration and the monitoring of personal budgets. They are more secure, funds can be clawed back, and individual contributions monitored and added more effectively. As a result, planned savings of 10 per cent have been reported to us by the local authorities that adopted this system, while another analysis of ten local authorities suggests there can be average savings of 36 per cent in administrative costs (assuming all care users used a prepaid card).

Such savings are critically important in the current era of constrained budgets, and are of direct benefit to care users themselves: for every pound a local authority can save in back-office administration, it reduces the need to cut budgets in front-line service delivery.

On the other hand, the practical details for prepaid need to be looked at carefully. The appropriate support must be in place to ensure people can use prepaid cards effectively – in particular, the ability to manage cards via the telephone rather than online is critical given the social groups likely to be using them. The issue of bank charges and difficulties with transferring large sums also needs to be considered, again given the often low income households being served by such cards. Indeed, we saw how one local authority, convinced of the benefits of prepaid, had to stall its plans because of changes to the bank's transfer fee structure as a result of faster payments legislation. With this in mind, it is clear that local authorities must first identify their requirements for a prepaid scheme, and then tender and negotiate with different programme managers to meet them.

We should also bear in mind that (very much like personal budgets) prepaid cards are currently being used in specific and limited areas and within specific care user groups. The pilots and examples of early take-up described in chapter 2 are proving successful, but their wider application will include applying them to trickier situations – such as for direct payments in residential care, for user groups who find using cards difficult, and for care providers who do not have card payment infrastructure.

One of the key challenges for the roll-out of personal budgets is that as they are rolled out nationally to meet the 100 per cent take up target by April 2013, so those who are harder to reach and who will have more difficulties in managing the budget will be included. Some local authorities are skirting the issue somewhat by offering a 'managed budget' to challenging groups, which means the local authority manages a person's budget and care planning, so the care users sees very little difference to their care package and has no financial responsibility for their own financial allocation. Nonetheless, in the next six months it is inevitable that direct payments for people with mental health needs and older people (groups whose take up of personal budgets has hitherto been low relative to other care users) will rapidly increase, and these groups will find the management of their own budget a challenge. Using prepaid cards – as an extension of personal budgets – is also likely to be a challenge for such groups.

One of the principles of personalisation is to provide a greater choice of services for care users. There is an argument that people should also have a free choice about how they get paid their personal budget – not just what they spend this funding on. If someone rejects the prepaid option and wants to stick to sending in quarterly receipts, the principle of personalisation would dictate that this should be accommodated. However, it is clear a system split between prepaid and more traditional paper-based payment and monitoring methods will not reap the same level of cost savings (which, in the end, benefit the care user) – this is the problem Kent Council has encountered.

As local authorities may be reluctant to impose a new payment system on care users, awareness raising and support for care users before, during and after the transition to prepaid cards will be vital. Making prepaid cards a normal part of local services – spreading them to other services using direct payments (eg children's services) as well as emergency loans, housing support and so on will also raise the local visibility and awareness of these cards and leverage even greater cost savings by rationalising several different forms of local payments through a single local prepaid system – thereby enabling higher investment in support services.

At national level, the advantages of prepaid to distribute welfare benefits cannot be ignored, particularly for the unbanked. The imminent roll-out of Universal Credit is prompting the Government and charities such as Citizens Advice to consider the needs of those without bank accounts or with poor financial capability in managing a monthly payment. Discussion has focused on 'jam jar' accounts and basic bank accounts to give greater access to financial products to people unaccustomed to retail banking, to those who need assistance with budgeting and to those who have poor credit ratings, but it is clear that prepaid cards could act as a transitional tool to get people to the point of using such products in a relatively safe environment, thanks to the ability to monitor or cap these cards. In particular, those who are wholly unaccustomed to managing their money may benefit from using the cards as a trial run for the greater responsibility of managing a bank account, rather than relying on relatives, carers or trustees and appointeeships. Those who are unbanked by choice, through distrust or dislike of the banking sector (which some studies suggest could be a significant proportion of the group)[82] might be encouraged to use prepaid cards as they do not require having a bank account.

Nonetheless, introducing a prepaid regime requires supporting people to transition to a cashless culture, as part of the wider Universal Credit agenda. The importance of the implementation of such a regime cannot be overlooked.

Recommendations

Reviewing all of our findings, we make the following recommendations:

Recommendation 1

In the face of unprecedented budget cuts, local authorities should explore the possibility of using prepaid cards for the distribution of personal budgets, as a tool to reduce administrative costs and reduce the budgetary cuts passed to front-line services.

We recommend, given the importance of the planning and implementation of these cards, that local authorities pilot prepaid schemes before rolling them out, and draw from the experiences of local authorities already pioneering such schemes.

We also recommend local authorities carry out a robust cost-benefit analysis of adopting prepaid technology, so that the savings in reduced administration can be weighed against the need for significant engagement and awareness raising, training and ongoing telephone support – the latter being a vital part of prepaid schemes for those unable to manage their cards through online interfaces.

We would also suggest that local authorities carry out a market intelligence exercise, to find out what other features of cards and card support their local care users, carers and care providers want so that this can be built into the card design at the earliest stage.

Recommendation 2

Local authorities considering using prepaid should engage with a range of different banks and prepaid programme providers and payment companies offering prepaid (such as Allpay and Advanced Payment

Solutions) to compare different charges, and ensure they secure the best deal for local people.

In the USA, the charges imposed on these cards are prohibitively expensive. Although UK cards do not have the same scale of charges, they can still thwart the success of a scheme, as we saw in the case of North Somerset Council in chapter 2. As prepaid cards are being used for older, disabled and otherwise vulnerable groups, and those on very low incomes, local authorities must take a firm stance when selecting a bank and negotiating a fair charging structure. We support the NCLC recommendation for US states to work together to reap economies of scale when negotiating with banks, and suggest local authorities could work together (perhaps in regions or local improvement networks) to adopt a prepaid scheme, giving them more purchasing power in negotiating a good deal with the banking sector and also potentially enabling their direct payment users to purchase services in neighbouring local authorities.

Box 6

Barking and Dagenham Council

Barking and Dagenham Council is considering introducing a prepaid card for people in receipt of personal budgets because staff believe that it will give security to people at risk of financial abuse.[83] *Council managers have recently expressed an interest in entering into negotiations with other councils to make sure they get the best value for money from prepaid cards.*[84]

Local authorities will also need to consider paying some or all of the transaction charges themselves, or sharing them with care providers and retailers (box 6), rather than passing them on to the card user. Such costs are likely to be more than offset by significant administrative savings that can be made, but in a time of such limited resources, there must be a robust analysis of costs and savings which proves this hypothesis (as per recommendation 1).

Recommendation 3

Local authorities should think creatively about using prepaid in other areas, such as asylum seeker and care leaver payments, and for local emergency fund schemes destined to replace the Social Fund and community care grants.

This would reap wider cost savings, including through opportunities to integrate funding streams where a local citizen draws on more than one service or grant, thereby making the initial investment in this technology more financially feasible. The monitoring and eligibility rules around each of these funding streams differ, so piloting in one area at a time (starting with care personal budgets, where evidence and good practice is most developed) may well be necessary.

Recommendation 4

Prepaid cards should be used as a secure way to distribute Universal Credit for the unbanked.

A national programme management scheme – like Direct Express® in the USA – would be needed to manage the delivery of Universal Credit prepaid cards, including smoothing out the design of the card and ensuring fees are kept to a minimum. The scale of the scheme (with possibly between 1 million and 2 million card holders) would no doubt create the purchasing power necessary to ensure fees were low.

The details of the SMoTS scheme are limited so it is difficult to ascertain if these cards will have the functionality of the prepaid cards discussed in this report (for example chip and pin, direct debit and telephone and online management and support functionality) or if they are simply a single withdrawal card to be used at PayPoints. We recommend that the DWP adopts a fully functional card. These cards would have greater longevity, as they would fulfil the following multiple purposes:

- help people develop the money management skills required for monthly Universal Credit payments; if PayPoints simply converted Universal Credit payments to cash at the beginning of a month, this could be problematic for household budgeting

- provide non-cash payment and direct debit options, as well as other features important for financial inclusion, such as a credit building or 'jam jar' saving function; less functional cards would give the unbanked no opportunity to benefit from online and non-cash payments and to transition to mainstream financial services, but would instead keep them in a cash-based economy
- possibly provide ongoing benefits for the underbanked (who more often rely on short-term loans), for example in building credit ratings and to provide a 'jam jar' savings function

Recommendation 5

In the longer term, the Government should explore the possibility of using prepaid cards to distribute Universal Credit or other benefits to financially vulnerable groups, possibly integrated with direct payments in health or care.

Some care users (such as those with learning disabilities, mental health needs or older people vulnerable to financial abuse) might find prepaid cards a beneficial way to spend both their health or care personal budgets and their disability related benefits. Those seeking to live with greater independence and develop life and budgeting skills, but who may need the safety net of oversight a prepaid card can offer, would find this particularly beneficial – the alternative at the moment is usually apointeeships and managed budgets, where people have little or no financial responsibility and cannot try to take on more.

Such a move would be revolutionary, by bringing personal budgets and benefits payments together, making the vision of individual budgets and more recently Right to Control a reality. The practical application would have to be considered carefully, however – for example, exploring how cards could co-house controlled and non-controlled pots of funding. The key ethical issue to be resolved would be to establish how much safeguarding or oversight is applied to the 'non-controlled' (benefits) pot. Assuming this can be adequately settled (taking on board the legitimate benefits associated with safeguarding, but balancing them with concerns about a 'nanny state' controlling people's personal spending), then the Government should explore the co-location of personal budgets and benefits payments on prepaid cards for some groups.

Recommendation 6

The Government should resurrect a form of targeted and less generous matched savings scheme to replace the now defunct Savings Gateway, using prepaid cards – in particular for the unbanked and underbanked in receipt of Universal Credit.

Encouraging low income families to make savings and accumulate assets is a priority for this government – not only as it is a tenet of Conservative belief,[85] but also because it builds financial resilience and encourages a savings rather than credit-based financial culture – vital in the current financial climate. The Savings Gateway, however, has been promptly dismissed as being too expensive – all the while, less generous private schemes like those offered by Asda, Morrisons and even the Post Office flourish. While these schemes offer a far lower percentage of matched savings, their ease of use still makes them popular.

We recommend, therefore, that the Government considers creating a smaller scale, more affordable and targeted savings encouragement scheme through prepaid cards. The primary target market for such a scheme would be the unbanked, particularly if they began to receive their Universal Credit through such cards. Making savings month on month could be rewarded, but at a lower and more affordable rate than the 50 per cent rate ambitiously applied to the Savings Gateway. This would essentially encourage Universal Credit claimants to put a small amount by each month from their benefits income in return for a bonus of, say, 5 per cent, with a larger bonus for those achieving month on month savings for a year. Moreover, these matched savings need not only come from the Government – housing associations, utilities companies and local authorities would all stand to benefit from encouraging the unbanked to use prepaid cards and might contribute to the matched savings scheme in order to encourage take up of the cards.

Other groups – such as vulnerable young people or care leavers who often have limited interaction with financial services

– could also be encouraged to make savings through such cards as part of a national or existing local scheme (from our FOI request, we know some local authorities already use prepaid cards to distribute funds to care leavers and low income students).

Recommendation 7

Invest in greater information, advice and hands-on support to facilitate the transition to a more digital, cashless society.

It is unlikely we will ever do away with the need for hard currency, but it is obvious that life with *just* hard currency is increasingly difficult and expensive. Online retail, discounts for direct debit bill payments (people without direct debit facilities now pay an extra £70 a year for their energy bills[86]), the end of cheques being used for benefits (and, until recently, the possibility of cheques being phased out entirely by 2018[87]) and the spread of chip and pin all point to a society which make it necessary to own at least some form of debit card. The roll-out of Universal Credit will cement this trend.

However, the large proportions of the population – the digitally and financially excluded, older and disabled people – who need help may all struggle to benefit from the financial savings, security and convenience associated with using cards instead of cheques, direct debits instead of prepaid meters, and so on. Similarly, many care users will struggle with a prepaid card system for their personal budgets, even though it will lighten their administrative burden (they no longer have to send receipts in to the council) and is more likely to guarantee smooth payments.

With the ongoing spread of direct payments and the imminent roll-out of Universal Credit, Demos recommends that the Government reviews its financial inclusion and digital inclusion activities and creates greater synergies between the two. This may involve investing further in awareness raising and information and support services delivered through local authorities or local agencies such as Citizens Advice on online financial services, the use of direct debit and debit and prepaid cards. Without such activities, many of the groups most likely to benefit from a shift from cash payments will be excluded.

Conclusions

Demos believes prepaid card technology could hold the key to substantially reduced administration costs for personal budgets – back-office savings which cannot be under-valued in the current era of limited funding. We also foresee substantial further important applications – the distribution of benefits for the unbanked, as a tool to encourage financial inclusion among some of the hardest to reach and those learning to live independently, as a means of integrating separate direct payments as they are applied in a variety of new service areas and, ultimately, to help realise the more ambitious vision of integrating direct payments and benefits.

The 'first generation' of prepaid cards is working well on the first of these applications, but if they are to flourish in these more varied and challenging contexts, the second generation of prepaid cards will need to learn from early teething problems, and those preparing to administer them will need to engage pro-actively with potential users and other stakeholders to ensure a smooth transition to a less paper-based system. Welfare reform and the personal budgets agenda have created significant new opportunities for more creative and innovative thinking regarding how people relate to local and national government and public services. Prepaid cards are an important tool to make these grander visions logistically possible, and cannot be overlooked as policymakers seek to turn this vision into a reality.

Appendix 1 Interviewees and attendees at workshops and roundtables

Interviewees for case studies

Helen Marrow, Finance Manager – Income and Direct Payments, Bury Metropolitan Borough Council
Donna Miles, Finance and Resources Service Manager, North Somerset Council
Georgina Walton, Project Manager, Families and Social Care, Kent County Council
Josephine Wessels, Project Manager, Direct Payments and Prepayment Cards, London Borough of Brent

Attendees at expert roundtables

Nick Ball, Vice-chair, NETS(work)
Tony Callaghan, Commissioning Officer, Adult Social Care, Leeds City Council
Colin Capper, Service Development Manager, Alzheimer's Society
Angela Cawthra, Elderly Debt Management Worker, Leeds Older People's Forum
John Dossey, Operations Manager, Wilf Ward Family Trust
Deven Ghelani, Senior Researcher, Centre for Social Justice
Ed Holmes, Senior Research Fellow, Economics and Social Policy, Policy Exchange
David Jobling, Sunderland Council
Jon Johansson, Social Policy Officer, Stockton-on-Tees Citizens Advice
Blanche Jones, Head of Policy and Campaigns, Sue Ryder
Lindsay Judge, Senior Policy and Research Officer, Child Poverty Action Group
Michael Kelly, Research and Policy Officer, Barnardo's
Lesley Lillie, New Prospects

Jonathan Lillistone, Head of Commissioning, Health and Community Services, London Borough of Southwark
Natalie Maidment, Policy Officer, Voluntary Organisations Network North East (VONNE)
Mike O'Driscoll, London Borough of Southwark
Sam Royston, Poverty and Early Years Policy Adviser, Children's Society
Julie Ruddick, Finance Officer, New Prospects
Christine Sherwood, Efficiency and Enterprise Officer, Daybreak Centres
Joe Surtees, Policy and Research Officer, Consumer Credit Counselling Service
Georgina Walton, Project Manager – Kent Card, Kent County Council

Appendix 2 Polling questions and fuller responses

1 The government is committed to rolling out direct payments – where people get a cash sum to buy a public service, rather than having the service delivered by their council.

Direct payments are already used in social care, health, and education for children with special needs. Users get money to spend on these services, and are able to choose different things to meet their needs.

Do you think the government/council should control what this money is spent on? (please tick all that apply)

YES – some people won't spend it wisely
YES – it's the government's money after all
NO – as long as it's legal, people should be able to choose whatever services they want
NO – as long as there is information and support to help people choose the right service

2 What sorts of people should have their direct payment spending monitored and controlled if necessary? Choose one or more as appropriate.

NONE
Older people
People with mental illness
People with learning disabilities
People with substance or alcohol abuse problems
Everyone should have their spending monitored

3 Are there things that the government shouldn't allow direct payments to be spent on?

No
Things which aren't strictly part of social care, health or education (e.g. leisure, holidays, cars)
Things which might be bad for a person's health (alcohol, cigarettes)
Junk food
Just things which are illegal (drugs etc)
High value branded items (TVs, designer clothes)

4 Soon, people on housing benefit will get a direct payment. This means the benefit will no longer go straight to landlords, but will go to the individual to pay their rent. Do you think this is a good idea?

NO
YES
Soon, the government will be putting several benefits, including JobSeeker's Allowance, Housing Benefit, Child Benefit and Incapacity Benefit, into a single payment called 'Universal Credit'.

5 Should the government control what people spend this Universal Credit on?

NO – it's up to the individual what they spend their money on
NO – it would be expensive and bureaucratic to do it
YES – but only for certain groups of people
YES – it's the state's money after all
YES – but only if the government found that it was being spent on illegal or dangerous things

6 What sorts of groups should have their benefits spending monitored and controlled if necessary?

None
People with learning disabilities or mental health problems
People with alcohol or substance abuse problems, or gambling addiction
People with a history of anti-social or criminal behaviour
People who have been out of work for a year or more
People claiming sickness benefits (incapacity benefit or employment and support allowance)
Stay at home single parents
Full time carers for disabled people

7 Are there things that the government shouldn't allow benefits to be spent on?

None
Things which might be bad for a person's health (alcohol, cigarettes)
Junk food
Just things which are illegal (drugs etc)
Gambling
Holidays
Leisure and high value branded good – TVs, designer clothes etc

Notes

1 The *Open Public Services: White paper*, outlining the principles for public service reform, has suggested that personal budgets could be used in children's services and specialist education, and possibly even housing services. See HM Government, *Open Public Services: White paper*, Cm 8145, 2011, http://files.openpublicservices.cabinetoffice.gov.uk/OpenPublicServices-WhitePaper.pdf (accessed 1 Nov 2012).

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A great untold story in public policy is the quiet proliferation of prepaid cards – a similar technology to a debit card except pre-loaded with funds – across public services. The cards are increasingly used by local authorities – 25 per cent currently use them and another 30 per cent plan to do so in the next year – to make a range of funding transfers to residents, including personal budgets for social care.

The current schemes are not without teething problems, and lessons from the first wave of these cards need to be learnt, but their potential is substantial: they offer a range of benefits to local authorities and service users, including significant back office savings for councils, and a much simpler means for users to demonstrate that their spending aligns with their agreed care package.

However, *The Power of Prepaid* argues that the potential for the technology extends beyond direct payments. The Government's flagship welfare reform, the introduction of Universal Credit, is beset with difficulties, not least how to provide it to those without bank accounts – the 'unbanked'. The report suggests that by issuing the Universal Credit on a prepaid card, the Government could alleviate the risks and premiums associated with a pure cash economy, while at the same time promoting financial inclusion and savings culture.

Further, it opens up the potential – recently controversially debated in Parliament – to exercise some control over how benefits are spent. Whatever the future of prepaid cards, it's clear that they enable more creative and innovative thinking regarding how people relate to local and national government and public services, and so deserve wider public debate.

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