Financial inclusion in social housing

Policy into practice

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ISBN 978 0 86297 537 1
First published in March 2008
by the National Housing Federation
Lion Court, 25 Procter Street London WC1V 6NY
Production Editor Fiona Shand
Printed in Great Britain by Typecast Colour, Hop Pocket Lane, Paddock Wood, Kent TN12 6DQ

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Abbreviations

ABCUL Association of British Credit Unions
ABI Association of British Insurers

BBA British Bankers Association
BCSB Banking Code of Standards Board
BMAG Birmingham Money Advice and Grants

CAB Citizen's Advice Bureau
CCA Consumer Credit Act
CCJs County Court Judgements
CDCU Community Development Credit Union
CDFIs Community Development Finance Institutions
CIH Chartered Institute of Housing
CML Council of Mortgage Lenders
CPAG Child Poverty Action Group
CRTs Community Reinvestment Trusts

DBERR Department for Business, Enterprise and Regulatory Reform
DCLG Department of Community and Local Government
DCSF Department for Children, Schools and Families
DfES Department for Education and Skills – now see DCSF
DooD Debt on our Doorstep
DTI Department of Trade and Industry – now DBERR
DWP Department for Work and Pensions

ESCo Energy Services Company

FIF Financial Inclusion Forum
FIOs Financial Inclusion Officers
FRN Furniture Re-use Network
FSA Financial Services Authority
FSSC Financial Services Skills Council

G-BIM Generic Business Intervention Model
GFA Generic Financial Advice

IPS Industrial and Provident Society

KLOE Key Lines of Enquiry

LHA Local Housing Allowance

MABS Money Advice and Budgeting Service

NACUW National Association of Credit Union Workers
NCC National Consumer Council
NDC New Deal for Communities

ODPM Office of the Deputy Prime Minister – now see DCLG
OFT Office of Fair Trading

PAT Policy Action Team
POCA Post Office Card Account

SAFE Services Against Financial Exclusion
SRB Single Regeneration Budget
SBS Small Business Service

Acknowledgements

The Federation would like to thank all the organisations that supported the development of this book, and the Housing Corporation and Friends Provident Foundation for their financial support.

The book was written by Community Finance Solutions (CFS) an independent research and development unit located within the University of Salford. CFS promotes and develops integrated solutions for financial and social inclusion, and community asset ownership.

Foreword

Housing associations show a great deal of imagination and lateral thought in developing strategies to suit the communities where they work. Perhaps the most striking example of this is in their approach to financial inclusion. Throughout the country, associations are stepping well beyond their landlord role to provide a range of services, from debt advice to affordable loans and banking facilities. Some are providing these services directly while others are supporting community financial institutions, such as credit unions, through partnership working and investment.

The Federation is proud to support this work, and as part of this commitment it has put together a series of products, events, publications and partnerships that aim to give tenants fairer access to financial services. Working with our members and other partners, we have developed this guide to help housing associations to step up a gear in promoting financial inclusion. It is designed to assist busy social housing staff to find creative new ways of helping tenants to manage their money.

It highlights the options open to social housing providers as they consider their approach to meeting residents' needs, and looks at some of the innovative good practice in the sector – as well as sharing some of the lessons learned from less successful projects.

This book shows that there is a 'business case' for financial inclusion in that it reduces rent arrears levels. But more importantly, it also demonstrates that by making key financial services easier to access, housing associations can enhance the quality of residents' lives and the communities they live in.

I hope you will find this guide a useful tool in your efforts to promote financial inclusion.

David Orr

Chief Executive
National Housing Federation

Chapter 1

Introduction

1.1 Overview

More than one in four households in Britain is excluded from mainstream financial services. Such exclusion can trigger debt problems which, if unchecked, can lead to eviction and homelessness. Social housing landlords can help tenants to avoid these risks and widen their access to key financial services.

The Financial Inclusion Task Force and the Financial Inclusion Fund have made good progress in expanding proven methods and in experimenting with new ways to assist low-income households to access money advice, banking services and affordable credit. As a result, there is now an exciting range of projects and initiatives under way to combat debt, poverty and financial exclusion.

Social housing landlords have a vested interest in the success of such projects, as their own tenants make up six in ten financially excluded households.

1.2 The role of social housing landlords

Social housing landlords have been described as the ‘lenders of the last resort’ to low-income households as the credit they provide is involuntary, showing up as rent arrears. The underlying cause for this is that those who lend to poor people ensure that they get paid first by making weekly doorstep collections; sometimes taking security as pawnbrokers do. This works to the disadvantage of tenants as it undermines the need for them to make paying rent a priority. For those low-income tenants in work and not on full housing benefit, this practice can put the security of their housing at risk.

Some housing associations have developed services to tackle debt and financial exclusion and, indeed, pioneering successful solutions. For example, by supporting a money advice service, Broomleigh Housing Association has succeeded in reducing its level of rent arrears by 50 per cent.[1]

Fair Finance, a community development finance institution in East London is working in a similar way with four housing associations. As with the Broomleigh experience, Fair Finance money advice services have shown how such an intervention can successfully reduce tenant rent arrears and other household debt, while at the same time saving costs on legal action and other losses in revenue which arise from evictions and voids.

As the news of these pioneering efforts has spread, the untapped potential and latent demand amongst tenants is becoming recognised and the number of social housing landlord partnerships with debt advice agencies, banks, credit unions and other third parties is increasing.

1.3 Integration of effort

The strategic goal that all these innovative partnerships are pursuing is a 'joined up approach to financial inclusion'. However finding the linkages is more art than science and can be very challenging.

This guide is designed to show how any social landlord can develop local partnerships to implement an integrated approach to the problems and issues faced. The guide also illustrates and explains six different approaches to financial inclusion service development that a social housing landlord can adopt. These options range from a sign-posting approach to get started through to the development and implementation of in-house services. The guide also shows how to carry out a cost-benefit assessment to appraise the business case for investing in financial inclusion services.

Practical experience reviewed in the guide shows that a partnership approach is best. Social housing landlords seeking to go-it-alone will struggle to provide all the different services that are needed because of the range of expertise required. Even the largest social landlords will need to forge partnerships to some degree.

1 Randall, B., Paterson, B. and Dayson, K. (2006) *Community Access to Money: Social housing landlords Reaping the Benefit*, Community Finance Solutions, University of Salford.

There is no simple or single panacea to tackling financial exclusion, but there is a growing range of good practice, and this guide demonstrates a variety of such pathways and models. It is designed to help social housing managers and staff develop effective financial inclusion strategies, policies and practices for their residents.

The guide looks at how to develop a best-practice approach, tailored to meet the specific needs identified by residents. It does not need to be read sequentially, and can be used as a reference book for those in a hurry.

Chapter 2

About the guide

The guide has been compiled as a resource book to assist busy social housing staff to find creative new ways to improve services to tenants with the following aims in mind.

2.1 Objectives

- To be an easy-to-use reference resource, both for those new to the issue of financial exclusion and financial capability, and those professionals more experienced in the subject.
- To provide a condensed history of the backdrop to financial exclusion and financial capability.
- To highlight the options open to social housing providers as they consider their approach to meeting residents' needs.
- To prove the business case for investment from mainstream budgets (rather than from charitable, statutory or other sources).
- To reduce the 'on-the-job' learning curve by sharing the traits of successful projects and 'lessons learned' from less successful projects; in particular championing emerging good practice through case studies.
- To emphasise the importance of a realistic, strategic timeline when implementing and measuring the effectiveness of (new) initiatives.

2.2 Approach

- The guide will seek to blend an academic approach to the subject with a more practical teaching style; where appropriate acting as a guide to those requiring 'expert' decision-making assistance.
- As much as is possible with such a range of complicated and inter-connected issues, the guide tries to adopt a self-contained approach to chapters, allowing readers to dip in and out quickly and efficiently but comprehend rapidly and effectively. This is achieved with the aid of bullet-point summaries at the start of each chapter.
- Emphasis is placed on understanding the principle behind the theory and the principle and theory behind the technique.
- The reader is shown how to make a start without mastering specific tools and methodologies, but the latter are explained for additional guidance.

2.3 Out of scope

The scope of this guide is clearly outlined in the table of contents.

In an area as broad as financial exclusion and financial capability, it is important that we draw the line somewhere. By considering what is out-of-scope it is, sometimes, easier to understand what is in-scope.

The Guide does not aim to provide:

- a simple answer to a very complicated set of issues;
- programme management;
- programme evaluation (financial or social impact);
- programme risk management.

Chapter 3

Conventions used in the guide

- Each chapter starts with an-overview of the topic to be covered. This is then expounded upon in the following material.
- For key areas you will find the use of specific icons:

More theory-work

This convention indicates where further reading might aid the reader's understanding of the issues. Extensive use of footnotes signposts the way forward.

Tip

Highlights specific techniques or recommendations that might be useful to practitioners and/or managers.

Caution

Highlight specific warnings or mistakes that might be useful to practitioners and/or managers.

Research

Highlight specific areas where the jury is still out and further research (including the use of pilots) is required or would aid understanding of the issues.

Chapter 4

What is financial exclusion?

4.1 Historical perspective and current position

Over one in four households (almost 6 million) have little connection to mainstream financial services.[2] As a result, they are outside the banking system or on its margins.

This state of financial exclusion significantly affects social landlords providing services to these households. About seven in ten social housing tenants are financially excluded.

In its Policy Action Team 14 (1999) report on financial exclusion, the Government summarised the problem for low-income households as the six No's:

- No savings
- No assets
- No insurance
- No bank account
- No affordable credit
- No access to money advice.[3]

A core problem is that financially excluded households pay disproportionate costs for the limited financial services they do have access to. These services are made available by a

2 Karl Dayson and Pat Conaty (2005) *Tackling Financial Exclusion: the Case for a Community Banking Partnership Approach*, Community Finance Solutions, University of Salford.

3 HM Treasury (1999) *Access to financial services*, London: HM Treasury.

range of non-bank providers, but the much higher interest and service costs charged by these providers can trap low-income households in debt.

Over the past ten years, rent arrears levels experienced by social housing landlords have spiralled. The (now defunct) Office of the Deputy Prime Minister has reported that multiple-debt is the leading cause of rent arrears and Shelter research has found that 80 per cent of possession orders are for rent debt.[4]

Practical solutions to financial exclusion can lead to debt reduction, and a small but growing number of housing associations are demonstrating how, through partnership approaches to tackling financial exclusion, multiple debt and rent arrears can be reduced and poverty alleviated.

So what are the financial exclusion facts and which households are most vulnerable and at risk?

4.2 The financially excluded – scale of the problem

According to HM Treasury, at least 2 million households have either no or only marginal links to banks and building societies. This total is down from 3 million in 2002-03 as a result of the take-up in basic bank accounts.[5]

Banking the unbanked

Whilst progress against this target seems impressive, there is no data available on what proportion of these accounts are actively used (defined here as 10-20 transactions per month), nor what social impact use or non-use of the accounts is generating for account holders .

The groups most likely to lack a bank account include lone parents and pensioners as well as prison leavers, those living in homeless hostels and migrant workers.

4 Shelter (2003) *Housekeeping: preventing homelessness through tackling rent arrears in social housing,* London: Shelter.

5 Friends Provident Foundation (2007) ‘Intelligence on financial inclusion’ – summary of the report by Peter Kenway, *A Snapshot of Financial Inclusion* (2007).

National Consumer Council (NCC) research has shown that 7.8 million adults (22 per cent of households) are denied access to mainstream credit annually, and tend to have recourse mainly to loans at much higher rates.[6]

This picture, though, is changing due to Government action. The Department for Work and Pensions (DWP) is additionally increasing by one-third the gross loans budget of the Social Fund. These loans are 'interest free' and in 2008-09, the gross loans budget will be between £700m and £800m.

Since 2006 the DWP has also promoted the Growth Fund[7] to assist third sector lenders, including credit unions and Community Development Finance Institutions (CDFIs), to provide low cost alternative finance.

Savings rates by British households in June 2007 fell to the lowest level since 1960.[8] The Government has revealed that only 2.1 per cent of income is saved. The lack of savings is most acute for the poorest. Some 40 per cent of households have no savings at all and 30 per cent of adults would like to save at least £10 a month but are unable to do so.[9]

Lack of household insurance is a major issue. Among the poorest fifth of households nationally, 50 per cent do not have home contents insurance. This compares unfavourably with the 20 per cent of those on average income who are uninsured.[10] This 'excess' uninsured rate of 30 per cent for those on the lowest levels of income is unchanged since the late 1990s.

6 National Consumer Council (2004) *Why do the poor pay more…or get less?* London: NCC.

7 The Financial Inclusion Fund 'Growth Fund' has been designed to increase the availability of affordable personal loans via third sector (not-for-profit) lenders such as credit unions and community development finance institutions. It is administered by the Department for Work and Pensions.

8 Desai, S. (2007) 'Update 2 – UK economy grows briskly, saving rate at 47-yr low', Reuters UK, 29 June 2007.

9 Friends Provident Foundation (2007) op. cit.

10 Ibid.

Insuring the uninsured

It is acknowledged that progress is being made on this front, notably with the development of 'My Home' via the National Housing Federation.

However, the jury is still out in terms of how best to market home contents insurance effectively. Product design remains an issue. For example, some policies are voided as soon as a direct debit is returned by the bank (a symptom of money troubles prior to when a financial disaster is most likely to occur).

As financially excluded households are, with few exceptions, the poorest households, the tragedy, according to NCC, is that 'the poor pay more or get less service'.
The Treasury has highlighted these extra costs to low-income households as:

(a) higher charges: to cash a cheque, to pay a bill or to borrow;

(b) lack of security: no safe place to save;

(c) barriers to work: it is hard to access most jobs without a bank account.

NCC has found that for those households without a current account and a direct debit facility, money transmission costs are higher. For example, EnergyWatch reports that the use of prepayment meters for both gas and electricity costs low income households up to £328 more a year. Financially excluded households also incur, typically, a £2 service charge (irrespective of cheque value) plus a 7 per cent commission charge to cash a cheque.

In the 1990s the common assumption was that financial exclusion was caused because of the increasing closure of bank branches. The underlying reason for financial exclusion is poverty (based on HM Treasury reports) and the lack of bank use is rooted both in tradition and in commercial considerations. Historically, banks have simply not catered for the financial needs of low-income households. Until the move to electronic payment of wages, non-salaried workers were accustomed to weekly cash payments from employers or from the Post Office for benefits.

From a commercial investment proposition point of view, provision of banking to low-income households yields no money to banks and is estimated to cost up to 10 times more for servicing a low value account compared with an average account, with little scope for cross-selling other financial products.

Credit scoring

Is a system widely adopted by mainstream lenders in the UK. It involves using a 'scoring system' based on 'well-established' methods that allows lenders to predict the likelihood of borrowers being able to repay a loan.

Credit scoring lenders allocate points according to the information made available to them by borrowers, at the time of application. This is then used to create a total score. The total score must reach a certain level for the application to be successful.

The total score required to be successful is under constant review to balance the needs of portfolio performance. The minimum score required and how this is calculated is never made available, since this is felt to be commercially sensitive information.

Surprisingly, credit scoring is about profit not risk and rejection may happen to even the most solvent if they are unlikely to act in a way that will make profit for lenders. For example, in light of increasing arrears and a global 'credit crunch' credit card companies are now considering introducing annual fees for those that always pay off their cards in full in, order to bolster flagging profits.

Credit scoring is supposedly designed to ensure all applicants are treated fairly but, in reality, can alienate vast tracts of the population literally at a touch of a button if the 'scorecard' is raised to reflect tightening market conditions such as we now find ourselves in at the time of writing this guide.

This philosophy may even be taken one step further in the use of 'behavioural scoring', also known as customer or predictive scoring. Behavioural scoring is an automated assessment of the way that a customer runs his or her financial affairs, based on the pattern of activity seen passing through existing customer accounts and is particularly pertinent for Basic Bank Account holders who might have low/no activity on their account. This lack of activity will inevitably lead to a poor score that will prevent them from moving on up the hierarchy towards a full-service account with all the benefits that can accrue from this progression.

Thus under regulatory pressure from government, the banks have created Basic Bank Accounts[11] to cater for low-income households but, with few exceptions according to Citizen's Advice findings, they have failed to market them.[12]

The wider story on Basic Bank Accounts

They will:

- receive money;
- pay bills;
- give you a cash card;
- let you set up direct debits; and
- act as bridge to a current account.

However, they won't usually allow you to go overdrawn by more than £10 (if at all).

They might offer:

- a debit card and payment by standing order; and
- a linked savings account to help you budget. This means you can keep some of your money in your savings account until you need to transfer it over to pay a bill.

As the National Housing Federation has emphasised, the weaknesses of the Basic Bank Account are that:

- there is no 'buffer zone' if a tenant becomes overdrawn;
- overdraft charges of £39 are a regular risk;
- many tenant users simply take all the money out each week.

As recent Government policy documents have stressed, financial exclusion is a multi-dimensional problem. Approaches to-date, though, have tended to focus on a particular area of need and matching this with a single solution. Government has, for example, seen the growth of Basic Bank Accounts as providing much of the answer and, as previously stated, this approach has had success in reducing the number of unbanked households by a third in recent years.

What has been missing is a more integrated approach to the problems that financially excluded households face.

11 There are currently 17 providers of the Basic Bank Account – see www.moneymadeclear.fsa.gov.uk for a list of providers, and section 4.4 as well as the Glossary at the rear of this book for further information on this product.

12 Citizen's Advice (2006) *Banking benefits – CAB evidence on payment of benefit into bank accounts.*

Government has now acknowledged this and new approaches that seek to address the core problem areas (ie, lack of advice, insurance savings and affordable credit) are, at last, being developed.[13] This is a major breakthrough and some housing associations and other social landlords are also recognising the need for a joined-up approach.

4.3 Who is vulnerable to financial exclusion?

The growing research evidence points to different patterns of financial exclusion. Jobless households, for example, have a different experience of financial exclusion compared to those in paid employment. The needs of those in work vary considerably from those who are unemployed or economically inactive. Transport costs are higher for the economically active, child care becomes an expense for many and there are other job-related costs that can suddenly appear as a significant overhead to fund – especially for those in low-paid jobs.

There are different categories of financial exclusion. Research findings show that financially excluded groups do overlap. but also diverge somewhat or sharply. Patterns of need are variable for different groups and, in many cases, distinctly different.

This can be seen to be the case depending on whether the main need is a banking or insurance service, money advice help or access to affordable credit. It is important to look at these three different categories of need and the research evidence available to understand how to provide services for variable circumstances.

Category 1: Households with no or only marginal banking services

According to the DWP Family Resources Survey (2002-03), the common characteristics of households cut off from mainstream financial services encompass:

- **Low income**: 65 per cent of financially excluded households have income below £14,500 annually, 42 per cent are on Income Support and 27 per cent are dependent upon a basic state pension.
- **Employment status**: 12 per cent are employed, 8 per cent are unemployed, 8 per cent are self-employed and the majority are economically inactive.
- **Household types**: 52 per cent are single people, 19 per cent are lone parents, 18 per cent are childless couples and 11 per cent are couples with children.

13 HM Treasury (2004) *Promoting Financial Inclusion.*

- **Housing tenure**: 59 per cent are social housing tenants (44 per cent in council accommodation and 15 per cent with a housing association).[14]

The research points to a difference between financially excluded households out of work and those in low-income jobs.

'Know your customers'

☑

Fact 1: a surprising amount of information is collected by social housing providers simply during the normal course of business.

Fact 2: a surprising amount of information is 'lost' by social housing providers during the normal course of business.

Contact management systems are of little use if not configured to collect relevant information, and if staff are unable to mine the data effectively in order to learn more about the customer base and use this information to develop appropriate solutions.

Category 2: Households in need of face-to-face money advice

Sue Edwards has profiled Citizen's Advice Bureau (CAB) clients with debts in a way that illustrates the difference. Edwards has found that those in work but on low income are more likely to have significant debt problems.

According to her findings, the typical CAB debt client nationally is:

(a) usually in work but with earnings below national average income;

(b) a social housing tenant and in receipt of some form of welfare benefit; and

(c) either a single person household or a lone parent.[15]

Research by Government bodies lends support to these CAB findings and has revealed that rent arrears have risen in recent years, especially among social housing tenants who have become employed in low-paid jobs.[16] A loss of housing benefit and complications with housing benefit claims are frequently related issues and linked with debt problems.

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14 Family Resources Survey, (FRS) 2002-2003.

15 Sue Edwards (May 2003) *In too deep – CAB clients experience of debt*, London: Citizen's Advice.

16 Audit Commission and the Housing Corporation (2003) *Housing Association Rent Income: Rent Collection and Arrears Management by Housing Associations in England*.

The Government's inter-departmental 'Over-indebtedness Task Force' has found that 7 per cent of British households are over-indebted[17] (ie, suffering from multiple debt problems).

The Task Force estimates that the level of unmet demand nationally for money advice is 250,000 cases.[18] According to the Task Force's findings, those who are over-indebted and have difficulties in obtaining face-to-face money advice are most likely to include:

- families with children;
- lone parents;
- unemployed households.

Category 3: Financially excluded households with high cost lenders

According to research for the Joseph Rowntree Foundation, 3.3 million households nationally need to borrow and are outside the mainstream financial services market.[19] Within this total, 2.8 million households are poor and either dependent on benefits or typically working part-time for low pay.

One in three of these households (1.1 million) are credit impaired (ie, with a poor credit rating), and typically with a history of bad debts and/or County Court Judgements. The DWP Social Fund is used by more than one in three of these households (1.3 million).

The Personal Finance Research Centre analysis for the Joseph Rowntree Foundation found that the sources of credit most commonly used by the poorest 20 per cent of households nationally include a diversity of commercial providers. These down market providers include:

(a) **Home credit**: doorstep moneylenders served 2.3 million customers in 2004, lending £1.5bn.[20] An average loan is approximately £500, repayable over 6-12 months. Interest and other charges range generally from 100 per cent to 400 per cent APR.[21]

17 The term over-indebtedness is used to describe debt which has become a major burden for the borrower. Over-indebtedness can be caused by, and contributes to, social exclusion, financial exclusion and poverty (Department for Business, Enterprise and Regulatory Reform).

18 DTI and DWP (July 2004) *Tackling Over-indebtedness Action Plan 2004*, London: DTI.

19 Collard, S. and Kempson, E. (2005) *Affordable credit – the way forward*, York: Joseph Rowntree Foundation.

20 Financial Inclusion Task Force (2007) *Towards a step-change in 3rd sector lending coverage and capacity.*

21 Four companies (Provident Personal Credit, Cattles (includes Shopacheck), London & Scottish and S&U) control 69 per cent of the home credit market and Provident alone controls 49 per cent.APR.

(b) **Mail order catalogues**: 25 per cent of low-income households borrow through mail order.[22] Typically the price for goods is 15-20 per cent above average high street costs. This equates with a credit charge of typically 30 per cent APR or more.

(c) **Pawnbrokers**: there are about 800 pawnshops nationally and providers include many small firms with a combined customer base of about 600,000. Customers are mostly women with children – either unemployed or in low paid work.[23]

(d) **Cheque cashers**: this is a relatively new form of financial service. There are now over 1,500 high street outlets nationally. Typical charges include a £2 fee and a 7 per cent commission charge to cash a cheque.

(e) **Sale and buy-back providers**: this is a service that appears to be similar to pawn-broking but, because of its mode of operation, it is not covered or regulated by the Consumer Credit Act 1976. As a result these merchants are not required to quote an APR.[24] Essentially these firms purchase second-hand goods at a price well below the estimated resale value and sellers are given the option to repurchase their goods, usually within a month, at a much higher price.

(f) **Rental purchase**: like mail order, goods are sold with a significant mark-up and repaid through instalments. However, unlike mail order, ownership does not transfer until the final payment is made.[25] Typical goods include furniture and kitchen appliances. Because the goods can be repossessed if payments are missed, credit checks are not used for this form of credit. The nature of the contract avoids the Consumer Credit Act 1976 as it is structured differently from conventional hire purchase lending.

(g) **Payday lenders**: this is a loan for typically four to six weeks. Customers need to have a bank account as loan recovery is done through the cashing of post-dated cheques. This form of loan is available from a broad range of sub-prime firms including: home credit companies, pawnbrokers and sale and buy back shops.

(h) **Illegal moneylenders**: the size of this market is hard to estimate but according to a report for the Department for Trade and Industry (DTI) – now the Department for

22 Financial Inclusion Task Force (2007) 'Mapping the demand for, and supply of, third sector affordable credit', Experian Report.

23 There are two major pawn-broking chains, Harvey and Thompson and Albemarle – each with more than 50 shops. Despite the security required for this form of credit, the charges still range from 75 per cent to 200 per cent APR.

24 The market is dominated by two firms, Cash Converters (100 shops) and Cash Generators (70 shops). DTI (2006) Illegal lending in the UK.

25 The main provider nationally is Brighthouse (100 shop outlets).

> Business, Enterprise and Regulatory Reform (DBERR) – by Policis, over 500,000 households have experience of using unlicensed loan sharks and 165,000 a year borrow from them.[26] Security traditionally has been provided to the lender by handing over benefit books. In future, as more households receive benefits paid through bank accounts, post-dated cheques are likely to become more common as security as well as the retention by these loan sharks of a benefit recipient's electronic Post Office Card.

From this long list of diverse lenders to low income households, it is clear that lack of access to credit is not a problem. Lack of access to affordable credit is the real issue. The Third Sector Working Group of the Financial Inclusion Task Force has conservatively estimated nationwide demand for affordable credit from financially excluded households as 3 million loans yearly and £1. 2bn of lending.[27]

Home credit is the most common and most expensive form of legal credit. A recent report for the National Housing Federation reveals that 1.6 million tenants use this form of high cost credit.[28] The home credit market appears now to be declining in size and Provident Financial, the leading firm with 60 per cent of the market, has been seeking to retain customers by promoting its Vanquis credit card. Research by Experian for the Financial Inclusion Task Force has found 9 per cent of low income households using such non-bank, sub-prime, credit cards with an average loan balance of £1,131.[29]

26 Policis (2004) *The effect of interest rate controls on other countries*, London: DTI.

27 Financial Inclusion Task Force (2007) 'Mapping the demand for, and supply of, third sector affordable credit', Experian Report.

28 Alexander, N. (2007) *Credit where credit's due*, a report for the National Housing Federation, June 2007.

29 Financial Inclusion Task Force (2007) 'Mapping the demand for, and supply of, third sector affordable credit', Experian Report.

Chapter 5

What are the solutions to financial exclusion?

5.1 The policy context

Action taken in implementing the recommendations of the PAT 14 report for the Social Exclusion Unit over the past seven years led to the introduction of the Basic Bank Account, the Child Trust Fund, two experimental Savings Gateway pilots[30] and partnerships between registered social landlords and the Association of British Insurers (ABI) to make house contents insurance accessible to tenants through a small additional charge on their rent.[31]

Some significant results have been achieved.

However, the Government concluded in its internal review of PAT 14 in early 2004 that the key areas of need still to be tackled include what former HM Treasury Minister Stephen Timms described well as the 'ABCs' of financial inclusion.

These have been deemed by Government to be:

A – Free money advice services for those in debt

B – Basic banking services (for households still excluded)

C – Access to affordable credit.[32]

30 The Savings Gateway uses matched financial incentives (a Government contribution for each pound saved) to encourage saving among lower-income households and to promote engagement with mainstream financial services.

31 HM Treasury (1999) *Policy Action Team 14 – Access to Financial Services.*

32 HM Treasury (2004) Promoting Financial Inclusion.

Over the past two years, and with total personal debt now running at £1.45 trillion, Government has emphasised the additional importance of access both to insurance services and to savings and budgeting facilities.

To provide greater access to essential financial inclusion services, HM Treasury, under the auspices of the Financial Inclusion Fund, has made available investment of £120m over the period from April 2006 through March 2008. The work to date has made significant progress and a further £130m of investment has been allocated for 2008-2011

A – Advice

In 2006, £51m was allocated for an expansion of free money advice services for two years (£45m through the DTI and £6m for new approaches to outreach services through the Legal Services Commission) and disbursed principally through 14 national partnerships for delivery in different regional areas of England and Wales. Citizen’s Advice is the dominant organisation involved in delivery nationally, but there are a few partnerships led by Advice UK and other independent groups. The money advice programme will be extended from 2008-2011 with a similar level of support from the Financial Inclusion Fund.

B – Basic Bank Accounts

Since 2000, the major banks and building societies in partnership with the Post Office, have worked with Government to raise the total number of Basic Bank Accounts to over 6 million. However, some two-thirds of these accounts have come about through a re-branding of the restricted cash card account facility that has been available for many years for young people under 18.

Basic Bank Accounts enable low-income households to have benefits, tax credits and pensions paid into them. Additionally, they provide open access to ATMs (cash machines) for cash withdrawals and offer facilities to pay bills by standing order or direct debit. The accounts do not provide access to credit and do not provide access to a chequebook or a payment guarantee card.

Research by Citizen’s Advice has found that many low-income households run into major problems when seeking to open a Basic Bank Account. Their findings revealed a lack of effort by many banks to promote Basic Bank Accounts, difficulties faced by households in terms of producing acceptable forms of identification and considerable delays in opening accounts with some banks.[33]

33 Citizen’s Advice Bureau (2006) *Banking benefits – CAB evidence on the payment of benefits into bank accounts*, CAB Summary Evidence Report Findings, January 2006.

A major criticism of Basic Bank Accounts has been of the penalty charges that can be incurred if there are insufficient funds in an account to pay a direct debit or standing order. A recent review by the Banking Code of Standards Board has found penalty charges of as much as £39 being levied each time there are insufficient funds. CAB has reported that these charges are, in many cases, leading to the loss of half a benefit recipient's weekly income.[34] Research by the British Bankers' Association has found that half of all active Basic Bank Account customers have set up a direct debit facility, and one in three of these customers have experience of a 'bounced' direct debit and often more than once.[35]

This problem has been eased recently by a few banks agreeing to provide basic bank account holders with a penalty-free 'buffer zone'.[36] But the vast majority of banks have still not made the move to provide this service. The Treasury Select Committee has recently called for the banking sector to scrap such 'unreasonable charges' and to introduce a £10 penalty-free buffer zone to help low-income households to manage their finances.[37]

Scrapping charges might lead to fees?

The OFT has launched a market study into personal current accounts in the UK.

Amongst the issues it intends to examine are:

(a) The fairness and impact on consumers generally of the incidence, level and consequences of unauthorised overdraft charges and returned item fees. The OFT will want to consider these charges in the broader context of other charges and any interest payments that are made for the bundle of services provided by personal current accounts.

(b) What steps could be taken to improve consumers' ability to secure better value for money, in particular to help consumers make more informed current account choices and drive competition.

A key fear is that the capping of overdraft and/or returned item fees may lead to the beginning of the end for 'free' banking'

34 Citizen's Advice (2007) *Bank Penalty Charges and Social Exclusion*, January 2007.

35 Millward (2006) 'Understanding consumer experience when opening and using basic bank accounts', British Bankers Association.

36 Buffer zone – a small penalty-free zone (value of overdraft) to guard against unpaid direct debits etc that recognises and fits with the (weekly) budgeting cycle.

37 The United Kingdom Parliament, Select Committee on HM Treasury Thirteenth Report, 'Opening basic bank accounts', 19 November 2006.

The reality of Basic Bank Accounts is that the product has been significantly eclipsed by other, seemingly less useful product offerings such as the POCA (see below). The banking industry agreed with the Government to halve the number of unbanked households between April 2003 and December 2006. Over this period 2.26 million new Basic Bank Accounts were opened and, of this total, the British Bankers' Association estimates that 51 per cent or 1.15 million were taken up by households that had not had a bank account before.

However, far more low-income households have chosen instead to take up the Post Office Card Account (POCA) – the electronic cash card introduced to replace the pension and benefit books. Essentially, the POCA is the limited alternative option when tenants and other residents do not want to open a bank account. It is widely considered that often the POCA is preferred to the Basic Bank Account due to people's mistrust or unfamiliarity with banks.

'Here today gone tomorrow'

Despite the heavy investment into the development of the POCA and seeming success of the initiative, the product is scheduled to be withdrawn by 2010. In response to widespread concern, the Government announced in 2007 that there will be a replacement for the POCA. However, the contract will be tendered for and the Post Office may not win the bid.

Whilst it may be that the Basic Bank Account becomes the default/only choice for previously unbanked customers, and whilst this may actually be viewed as a good thing as we seek to 'nudge' people towards mainstream providers, there is no formal plan in place to co-ordinate this.

'We don't know what we don't know'

Further work is needed to ascertain why a product (the POCA) available through but one delivery channel proved so much more popular than one backed by, and available through, the combined might of the UK banking system (the Basic Bank Account)

Unlike the Basic Bank Account, the POCA has no functions other than the encashment of Government payments. Despite this, over 5.1 million POCAs have been opted for. This is 2 million above the Government projections. As a result some 2.24 million people remain unbanked according to the Financial Inclusion Task Force.

The Treasury has reported that about 8 per cent of households are unbanked (about double the EU average) and a further 12 per cent of households have no everyday bank account.[38] The Financial Inclusion Task Force refers to this second group as the 'underbanked'.

Research by the National Consumer Council has found that one-in-two Basic Bank Account holders simply withdraws all the money out of their account each week.[39] Thus, in practice for these households, the account is operated like a POCA, and does little to increase account holders' financial skills or help them move away from the cash economy. Also for those with a Basic Bank Account, there is very little evidence of migration and upgrading to a full service account or other bank products.

Access to banking is not always a solution

⚠

Banks generally work on the premise that it is seven-times more difficult to find a new customer than to keep an existing customer (ie, keeping and cross-selling to existing customers is key to business performance).

Legislation conspired to provide them with a new customer segment where there was little alternative provision (only the POCA). Normal business economics say that they should have welcomed this new demographic group with open arms and then looked to cross-sell to them (whilst at the same time helping educate them (default financial literacy training). This simply has not happened. There may be many factors at play, but undoubtedly the inability to cross-sell further products and increase average customer revenues is a key one.

The lesson? Whilst important, access to banking or a bank-like service will not, in itself, solve the problem of financial exclusion.

According to the research findings by the National Consumer Council (2005), the profile of the unbanked includes:

- those on very low income – 80 per cent have income below £825 monthly;
- benefit recipients – 20 per cent of those on benefit are unbanked;
- lone parents – 20 per cent of the unbanked;
- single people living alone – one in two of unbanked households;

38 HM Treasury (2004) *Promoting Financial Inclusion*.

39 National Consumer Council (2005) *Basic Banking – Getting the first step right*, January 2005.

- economically inactive – one in two of the unbanked have been on benefits for over five years;

Credit where credit's due

This recent report by Niall Alexander for the National Housing Federation does an excellent job of cross-referencing the social housing demographic to the financially excluded demographic.

The National Housing Federation report indicates that there are some 358,000 households without bank accounts.

There are a number of disadvantages faced by those without a bank account. According to the Financial Inclusion Task Force (2006) these include:

(a) high charges and costs for cheque-cashing and bill payments;

(b) lack of access to certain products and services, such as direct debit discounts offered by utility companies to customers and access to a contract for a mobile phone, satellite TV and online purchasing;

(c) lack of access to a mortgage and mainstream credit and only marginal access to affordable credit;

(d) lack of a safe, secure place to store money and vulnerability to theft;

(e) barriers to employment as most employers require a bank account for wage and salary payments;

(f) limited access to financial information and advice.[40]

The Financial Inclusion Task Force has been charged by the Government with monitoring the progress of the banking industry in meeting the goal of halving the number of unbanked households.

A report on the results at the end of 2006 was published in March 2007. Over the past 18 months barriers to take-up, including the problems faced by households to present acceptable

40 Financial Inclusion Task Force (2006) *Opinion Leader Research Findings from Financial Inclusion Deliberative Workshops*, May 2006.

forms of identification, the poor publicity for the accounts by many banks and the delays in the time needed to open up accounts, have been overcome to some extent. The British Banking Standards Board which monitors the Banking Code has agreed to push for these problems to be tackled through a revision to the Banking Code.

The National Housing Federation has recently called on banks to scrap the high charges for low-income households that go overdrawn. Chief Executive David Orr has called for urgent reform:[41]

> Basic bank account customers face extortionate charges for going a penny overdrawn – some are charged as much as £39. That's a hefty chunk of your monthly budget if you're on low income. Banks should offer basic bank account customers a small buffer zone on going overdrawn.

C – (Affordable) Credit

'Cruel care'

Whilst this guide makes a strong case for inclusive financial service provision, the authors feel it only prudent to formally state that no matter what methodology or service is used to help people there will always be a percentage of people that should not be lent to.

Some because they have simply fraudulent intentions, some because they are not investment ready (yet – (financial) literacy etc.), some because their circumstances pose too high a risk even for alternative lenders such as credit unions and community development finance institutions and, finally, some because their situations would be better handled using welfare.

To tackle the need for access to affordable credit, the DWP has made available, under contracts with credit unions[42] and community development financial institutions,[43] over £40m for the

41 'Low-earner buffer zone plea to banks', *Inside Housing*, 4 May 2007.

42 Credit unions are financial co-operative organisations governed by the Credit Unions Act 1979. They can provide a range of financial services including savings facilities, loans and bill payment accounts. Deposits in credit unions are covered by FSA compensation schemes in a similar way to the deposits in banks and building societies.

43 Community Development Finance Institutions are unregulated lending providers which have been supported by the Government to provide credit and other support services to address market gaps not being met by banks, building societies and other mainstream credit providers. Most CDFIs provide business finance for small businesses and social enterprises. Some CDFIs also provide consumer loans and other forms of micro-credit to self-employed people.

provision of instant loans. The Growth Fund target is 75,000 loans yearly and the programme is on target to achieve this and an annual lending volume of £30m.[44]

The distribution of Financial Inclusion Fund resources and the selection by Government departments of providers has been based upon criteria set by the Treasury, including: geographical concentrations of financial exclusion in specific localities and the capacity of applicants to deliver services to the target groups.

DWP Growth Fund – Round 2 Expansion Plan

The Third Sector Credit Working Group of the Financial Inclusion Task Force has assessed ways of upscaling lending turnover between 2008-2011. It has identified 25 'red alert' and 56 'amber alert' local authority areas in Britain where there is high demand for affordable credit but no lending supply yet from either credit unions or CDFIs. The new target agreed with the Treasury is to double the volume of Growth Fund loans to £60m annually by 2011 and to reach a customer base of 150,000 financially excluded people.

The DTI (now DBERR) and the DWP have made grants available on a competitive basis to those agencies who have demonstrated through their delivery plans that they are best placed to demonstrably reduce financial exclusion. Unfortunately, with few exceptions, the providers selected tend to provide just one service, such as debt advice or affordable credit.

Joined-up provision through local partnerships is still largely a missed opportunity. It is here where social landlords could play a key strategic role in ensuring that integrated solutions feature more strongly in meeting the well-researched, multiple needs of low-income households. This approach is beginning to happen as the case studies in this guide demonstrate.

5.2 Financial capability – the new horizon

Government policy is developing in a way which will put more and more importance in future on 'financial capability' (ie, a combination of financial knowledge, awareness and skills in money management).

44 Financial Inclusion Task Force (2007) *Towards a step-change in 3rd sector lending coverage and capacity.*

The challenges in this field are daunting. The Financial Service Authority's UK Baseline Study (2006) on financial capability revealed that seven in ten households have no personal provision to cover a sudden fall in income, four in ten people run out of money either at the end of the week or month, and young adults under 30 are the least financially able.[45] The FSA findings identified financial capability as being low among social housing tenants, the unbanked and those with low educational attainment.

The welfare reform legislative changes are shifting the housing benefit system to Local Housing Allowances (LHAs). The pilot projects have been run and new LHAs based on household size and the broad rental market will be rolled out nationally for new claimants from April 2008.[46]

The rates of LHAs will be set by local authority rent officers at the median level of local rents. There will be exemptions initially, including: tenants in rent arrears, tenants deemed unable to manage their own affairs, housing association tenants, protected tenancies, pre-1989 tenancies, caravans, houseboats, hostels and B&B accommodation. However, the thrust of policy is to move progressively to the LHA system.

The Government seeks through welfare reform to encourage the payment of housing benefit direct to tenants instead of landlords. The Government believes that this will encourage more tenant skill development in relation to money management and aid the transition to paid work.

This may well be true. However, this increase in personal (and financial capability) is unlikely to occur overnight and it may take a generation before the real benefits of the current levels of investment in financial capability are apparent, and it is the social housing market that may be left to both finance and 'pick up the pieces' if this change in policy fails.

Recent research by the Chartered Institute of Housing (CIH) has shown that social housing tenants prefer the system currently in place – irrespective of whether housing benefit is paid directly to them or to their landlord.[47] This study also found that tenants who are 'ordered money managers' prefer the benefit paid to them, while 'chaotic money managers' generally preferred the benefit to be paid to their landlord.

45 Financial Services Authority (2006) *Financial Capability in the UK: Establishing a Baseline.*

46 DWP Resource Centre (2006) *Background to Local Housing Allowance.*

47 Irvine, A., Kemp, P. and Nice, K. (2007) *Direct payment of housing benefit: what do claimants think?* Coventry: Chartered Institute of Housing.

Key areas where the FSA has identified that skills need to be developed include budgeting and money management, the ability to choose financial products to meet households' needs, the capacity to plan ahead for retirement and to keep up-to-date with financial information. The Lord Leitch Review (2006) of basic skills has found a similar capability gap. His review has recommended action by Government to ensure that 95 per cent of UK adults become functionally numerate and literate by 2020.[48]

At the moment, despite the Government contributions of between £250 to £500 per infant, one in four parents does not take the initiative to open a Child Trust Fund account. In future the 'choice issues' like this will grow.[49]

In relation to future changes, pension reform will be introduced in 2012. This will seek to automatically enrol workers into a pension, with a minimum level of employee contribution of 5 per cent and for employers of 3 per cent. With the demise of defined benefit pension schemes, there is a fast growing need for access to sound financial advice.

A significant proportion of the market is unable to secure financial advice services because financial advice has shifted in recent years from a commission basis to a fee-for-service basis. The impact of this change has been to increase the number of households without access to financial advice. Thus, low and moderate income households are increasingly not serviced by firms in the market, just at the time when they need this help the most because risks are shifting increasingly from the State and the employer to the individual.

'We have a plan!'

In January 2007 the Treasury published the Government's long-term approach to financial capability.

This is a ten-year strategy with the following key goals:

(a) to ensure that all adults have access to high quality generic advice;

(b) to ensure that all children and young people have access to a planned and coherent programme of personal financial education;

48 Leitch Review of Skills (2006) *Prosperity for all in the global economy – world class skills*, Final Report, December 2006, London: HM Treasury.

49 HM Treasury (2007) *Financial Capability – The Government's Long-Term Approach.*

(c) to provide a range of Government programmes to focus on improving the financial capability of the most vulnerable people.

To develop a framework to implement these goals the Treasury has set up an inter-departmental ministerial group. This group will oversee the Government's work on financial capability. An action plan to determine programmes for the most vulnerable will be completed by the Spring of 2008. The Treasury appointed Otto Thoresen, Chief Executive of Aegon UK to lead a feasibility study to research and design a national approach to generic financial advice.

The Government has defined this new form of advice in the following way:

> *Generic financial advice is unregulated advice which takes account of the specific financial circumstances of an individual, but which does not result in a product recommendation. Generic advice helps individuals to understand their current financial position, their available choices, and how to take further steps to meet their needs. It should be distinguished from debt advice which addresses the single issue of helping an individual to deal with problem debt.*[50]

Recent research has shown a huge demand for generic financial advice. A survey by the Resolution Foundation (2006) of low-to-medium income groups has found a demand level of 60 per cent for this type of advice, with 40 per cent of those surveyed saying they would use a generic advice service at least once a year.[51]

Pilot projects in the delivery of generic financial advice have been run by Citizen's Advice Bureaux. The Financial Services Skills Council has published guidance on National Occupational Standards and key elements to be included through any service.[52] These standards have been agreed by Government as providing a good basis for developing generic advice. The FSA is also developing its work on preventative money advice. There is a need for a clear and specific branding for generic financial advice which distinguishes it from debt advice on the one hand, and from commercial financial advice on the other. The Government agrees that generic financial advice should take a holistic approach and has indicated which aspects of relevant money advice, such as tax credit and benefit checks, should be part of the service.

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50 HM Treasury (2007) *Financial Capability: the Government's Long-Term Approach.*

51 Resolution Foundation (2006) *Closing the Advice Gap: providing financial advice to people on low incomes*, May 2006.

52 Financial Services Skills Council (2006) N*ational occupational standards for providers of generic financial advice*, May 2006.

Therefore, a differentiation in the advice field is now steadily emerging between generic financial advice, debt and money advice and regulated financial advice.

The Thoresen Review

This independent review set up by HM Treasury has focused on how Generic Financial Advice (GFA) can be provided.

As part of the review it ran a series of GFA pilots with Consumer Direct, in partnership with Citizen's Advice Bureau, Cumbria County Council, Agilisys and A4e. The pilots were operated in late 2007 in the North West, London, Staffordshire and South Yorkshire.

The pilots were designed to:

(a) test for the first time GFA across three channels – the telephone, the web and face-to-face;

(b) target more than 5,000 consumers, providing guidance or information, not regulated advice, on a range of areas from jargon busting, to budgeting, tax and benefits, saving and planning for retirement.

The findings from the Thoresen Review were published in March 2008. The report called for:

(a) a national Money Guidance Pathfinder to be funded jointly by the Government and the Financial Services Authority;

(b) a budget of £12m to be provided for the Pathfinder to operate over two years and to be delivered by the Financial Services Authority;

(c) for 750,000 people to be targeted by the Pathfinder and to assist them with free and independent money guidance on matters like managing debt, budgeting for a new baby, the terms of a loan agreement, planning for retirement or saving for a mortgage deposit;

(d) the services of the Pathfinder to be accessible through a variety of channels including the internet, over the phone and face-to-face;

(e) the Pathfinder to involve partnerships in the delivery with a range of organisations that meet the principles set out in the review for Money Guidance.

(f) the Pathfinder to prepare the way for a longer-term national Money Guidance scheme after the two-year pilot.'

The Treasury Select Committee has also recently called for a targeted national Savings Gateway with savings by low income individuals matched by Government contributions. The Committee estimates that the cost of this would be only one-tenth of that of tax relief on Individual Savings Accounts and Personal Equity Plans. The Committee also recommended to Government that a new Credit Union Act should be considered, which would assist credit unions to increase their savings level from £428m to £1bn by 2010.[53]

5.3 Summary of key points

1	**Look to be inclusive**	The scale of the problem is probably even worse than the/your research indicates.
2	**Don't forget that vulnerable groups, including those of an ethnic minority heritage, might have special needs**	Simple things such as child care issues, or more complex matters such as Islamic finance provision
3	**Know your customers**	Use the information available in this guide alongside your own research and a smattering of common sense.
		Stress test your plans with critical focus groups if necessary to avoid costly mistakes
4	**Know the opposition**	In term of access to credit, think carefully about existing predatory lenders (both the legal and illegal kind) and how best to offer viable alternatives.
		Copy the most attractive features of their service offerings (since they probably work).
5	**Look to offer integrated solutions**	Remember the six 'No's' detailed in section 4.1, 'ABC' in Chapter 5 and the Credit Path in Chapter 9.
6	**Don't be afraid of 'cruel care'**	It may well be that other mechanisms offer a better solution to the problem
7	**Keep abreast of developments**	Consider developing local or sub-regional groups (formally or informally) to share best practice, and don't forget more strategic and formal channels such as the FSA website and developments with generic financial advice.
8	**Think ahead**	Make sure the Local Housing Allowance becomes a business opportunity rather than a business threat.

53 Select Committee on Treasury (2007) Thirteenth Report, 9 October 2007.

Chapter 6

What is the business case for financial inclusion action?

6.1 The dimensions, costs and impact of rent arrears and tenant debt

At a national level, social housing landlords provide a gateway to a home for over 4 million households – people who are generally more excluded than the wider population.

Possession actions by social housing landlords more than doubled in the decade to 2003 and, by 2002/03, these resulted in the eviction of around 26,000 tenants annually.[54] The vast majority of such repossessions are triggered by rent arrears. Once evicted, former tenants are often disqualified from social housing for the foreseeable future.

At a sector level, around 15 per cent of social housing tenants are behind with their rent at any one time – equating to over £600m of free credit.[55] On a day-to-day basis these arrears are often a housing manager's biggest headache. The delayed receipt and loss of income from this free credit means that less money is available for managing and maintaining homes.

Social housing landlords are increasingly under regulatory pressure to meet rent collection targets, but at the same time the dichotomy is that they are obliged to do (and to be seen to be doing) the 'right thing' to ensure tenants have every opportunity to retain their home before the spectre of eviction comes upon them.

54 ODPM (2005) *Use of possession Actions and Eviction by Social Landlords.*

55 Audit Commission (2003) *Housing Associations rent income*, p8 and *Local Authority rent income*, p4.

At an organisational level, outright possession orders brought by social housing landlords due to rent arrears come at a high price – previous work undertaken by Community Finance Solutions indicates that it can cost a minimum of £6,000 to evict a tenant for rent arrears, without including the cost of dealing with subsequent homelessness applications.

At a neighbourhood level, high levels of debt are often concentrated in small areas leading to a transient population, making it difficult to 'place make' or build social/community cohesion. This, in turn, has an inevitable negative impact on housing stock as people tend to 'camp in properties rather than live in them'[56] awaiting the next personal upheaval that leads them to move on.

At a personal level, the impact of debt can be marked. Housing estates are fertile grounds for predatory lenders (of the legal and illegal kind). This inevitably leads to increased stress levels on individuals already often enduring more precarious lives, and their health usually suffers as a consequence. Children become neglected in terms of nourishment (emotional and dietary) as their parents' focus is on surviving the day, hiding from the debt collector leading to a lack of control – and so the circle of despair continues.

6.2 From good emerging practice to a general business intervention model

Whilst the scenarios outlined above will undoubtedly resonate with many in the social housing sector and, indeed, beyond, in a time when commercial pressures prevail, it is the financial case for financial inclusion action that is often paramount for social housing landlords. If the financial inclusion plan is well-designed, carefully managed and implemented effectively, it can work constantly to reduce rent arrears and the income lost through evictions and empty homes. Thus, the intervention can cut the cost of staff time spent dealing with these issues and the legal costs incurred in settling problems.

This section of the guide suggests that the potential for a social housing landlord's intervention can be qualified in terms of the net financial gains that can be achieved by investing in a range of community finance initiatives.

56 Perspective given by Steve Mather, Group Head of Regeneration, Places for People Group.

6.2.1 Broomleigh Housing Association – From 'sticks to carrots'

Seven years ago Broomleigh Housing Association, a member of the Affinity Sutton Group, had a wake-up call when its eviction rates increased to five a week and possession actions shot above 2,000 a year. Rent arrears were running at 6.1 per cent. Through the use of a money advice strategy, by the end of 2005/06, rent arrears stood at 3.1 per cent, court cases had dropped to 675 a year and evictions to 41 all as a result of the Association's intensive assault on financial exclusion. The Broomleigh success clearly demonstrates that the introduction of a number of community finance tools can bring down rent arrears.[57]

Both the in-house training of staff and external partnership development to deliver money advice collaboratively has made the difference. All Broomleigh housing staff members have been intensively trained in benefits knowledge and are regularly updated in these skills both by external trainers and by the association's in-house welfare benefits adviser.

Internal standards of performance are set to ensure that all new tenants receive an appointment to have their benefit entitlement fully checked and claims filed to ensure that benefit income is in place by day one of a letting.

To reach out to those tenants not paying by direct debit, the housing association promotes Basic Bank Accounts proactively. The housing staff work closely with local banks and building societies to ensure accounts are set up.

Tenants that need additional support are identified by housing staff and given help with filing claims by specialist benefit claimant staff. Tenants are also assisted to take up a low-cost house contents insurance of up to £30,000 cover with premiums payable with their rent.

For those tenants with serious, multiple debt problems, the housing association jointly funds a specialist debt adviser at the Bromley CAB. This adviser has complete independence and is free to represent tenants in arrears during possession proceedings.

57 Randall, B., Paterson, B., and Dayson, K. (2006) *Community Access to Money: Social housing landlords Reaping the Benefit, Community Finance Solution*s, University of Salford.

Diagram 1: Developing a financial inclusion action plan

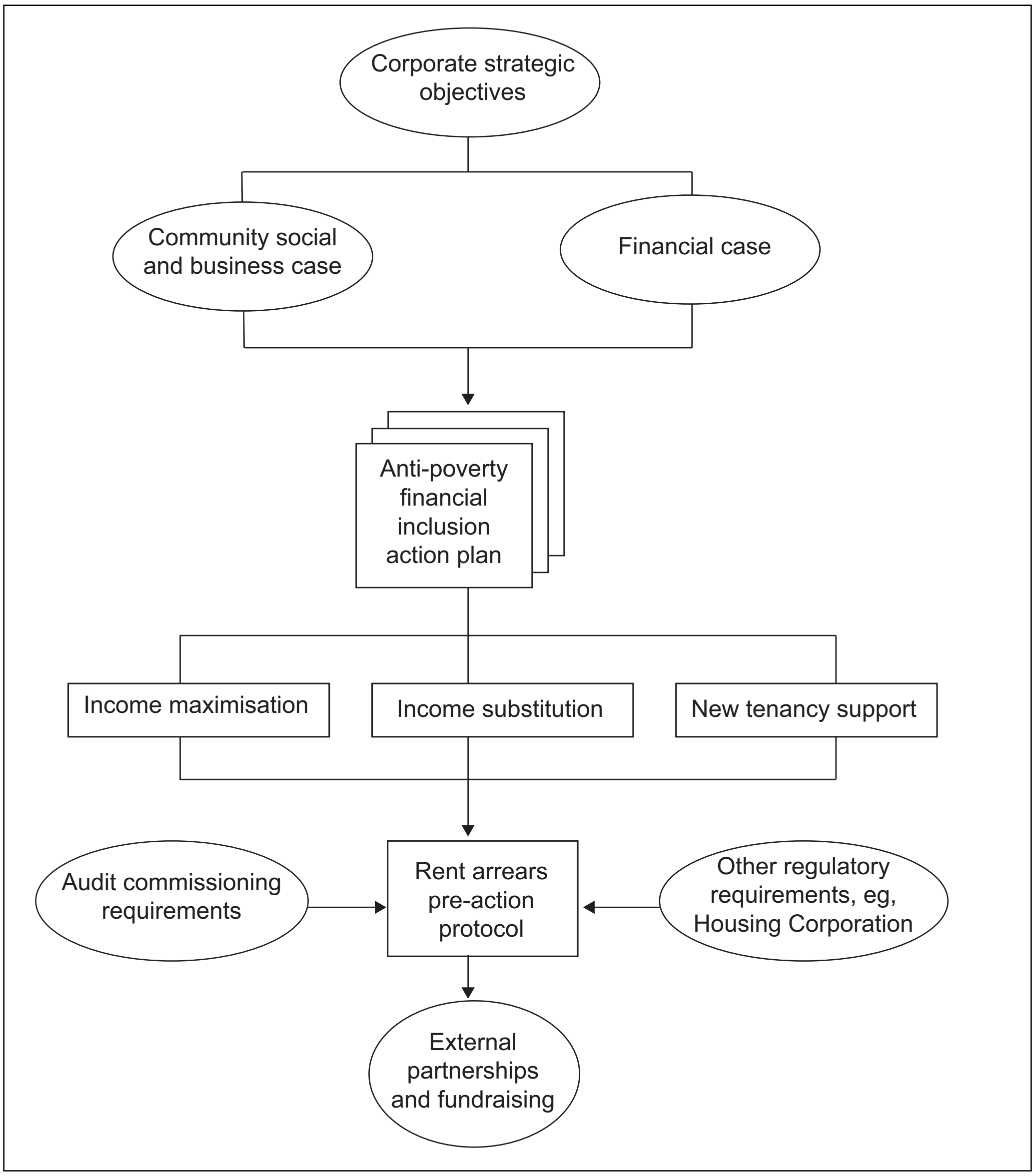


Diagram 1 above provides a summary of a way forward to advance a social housing landlord action plan.

More recently work undertaken by Community Finance Solutions alongside Southern Housing Group (SHG) in the last 12 months has led to the development of a 'General Business Intervention Model' (G-BIM).

Southern Housing Group is one of southern England's largest housing associations. Founded over 100 years ago, it owns and manages 24,000 homes with more than 48,000 residents.

Part of Southern Housing Group, Southern Housing Foundation (SHF) is a charitable organisation formed in 1998 to deliver the Group's social investment work. SHF funds a range of community initiatives to help create sustainable neighbourhoods where people want to live.

Financial inclusion was adopted by SHF as one its priorities in 2005. It approved funding for a small team of Financial Inclusion Officers (FIOs) with a remit to operate on a pilot basis.

The team's objectives included:

(a) building a directory of advice agencies in the local authority areas where SHG operates;

(b) providing face-to-face support ('light touch' debt and financial literacy advice) to a small number of tenants in need.

Indirect objectives were hoped to be:

(a) to reduce rent arrears and, therefore, court actions and evictions; and

(b) in cases where court action or eviction cannot be avoided, to enable SHG to show that it has taken every action possible to assist the tenant in keeping possession of their property.

Tenant participation in the process was entirely voluntary.

In very simple terms the service involves:

1 SHG tenants being identified as in financial difficulty, generally by the Service Centre staff (CSAs) as part of the credit control sequence (although it might also be by housing managers).

2 The CSA assessing whether the case is appropriate (in terms of types of debts) for referral to the Financial Inclusion team.

3 The FIOs making contact with the referred tenant, checking their 'eligibility' and willingness to participate.

Develop strict protocols within the service

Agreement to partake of the financial inclusion service does not necessarily mean tenants will implement the advice given.

Sometimes it is perceived (by the CSA) as a stalling tactic to avoid the credit control process.

4 At the first meeting, checking the facts. Once ascertained (often to the incredulity of the tenant) the FIO would make an assessment of whether they could help the person(s) and explain accordingly.

5 If not accepted by the FIOs, the CSA is informed and contacts the tenant if necessary.

6 Conducting follow-up meetings if the case was accepted. Primarily these seek to help the tenant(s) deal with their debts as well as ensuring they were claiming their full benefit entitlement.

Plan for change

The task is time and labour intensive in direct correlation to the tenants' (perceived) abilities to help themselves, exemplified by a quote from an FIO: 'we thought it would take four weeks (on average with each tenant) but it takes four months'.

This radically changed the expected level and depth of interaction with tenants (more of a case-worker relationship than simple advice and signposting provision).

7 Steering tenants towards more specialised help, mainly in the form of a referral to the Citizen's Advice Bureau, if this was felt to be beneficial.

'Learn to let go (if you can)'

Over a period of time FIOs hoped/expectged to reduce their involvement with each client as their [problems were resolved, the tenant's confidence and financial capability improved or the case was taken over by other agencies.

However, this was not always possible since agencies did refuse referrals (anecdotal evidence suggests CABx refused 30 per cent of FIO referrals), whilst sometimes tenants 'insist' that the FIO remains involved since they are deemed 'more like a friend'.

'Trust the need for independence within your financial inclusion strategy'

There was evidence of the FIOs becoming a tenant's 'champion' and liaising positively with the CSAs to mutual advantage. Indeed, it is thought that the offer of a repayment plan from an FIO on a tenant's behalf was more readily accepted by a CSA than if it had been received from the tenant, since it is perceived that it is a more genuine and realistic offer with the tenant having been through the financial inclusion process.

It is worth noting that the FIO remit allowed them to offer advice that might be viewed as against the best interests of the SHG. This independence was/is deemed crucial to the credibility of the financial inclusion service in the mind of the tenant.

8 Ultimately, at some point in the future, the FIO would take the decision that they had done as much as they could for the tenant and close the case (with the tenant's problems solved or not as the case may be).

'Beware depth versus reach'

Increasingly, as FIO skill levels increased they became more effective, but this was not always evident in an increase in the number of clients seen; rather the FIOs used this increased skill level to do more work for the same number of tenants leading to the dilemma of depth versus reach.

As part of the review and development of the service, a survey was undertaken of tenants who had been through the process looking to better understand their perceptions and thoughts on it. Some of the key findings of this survey are available in the case study section of this guide.

The development of a business case to quantify the level of financial benefit to SHG was central to the review of the financial inclusion service in order to develop a business case for sustained investment by the core group.

Community Finance Solutions has worked with SHG to create a Generic Business Intervention Model that is capable of providing a transparent and quantifiable cost/benefit analysis of the financial inclusion service in purely monetary terms.

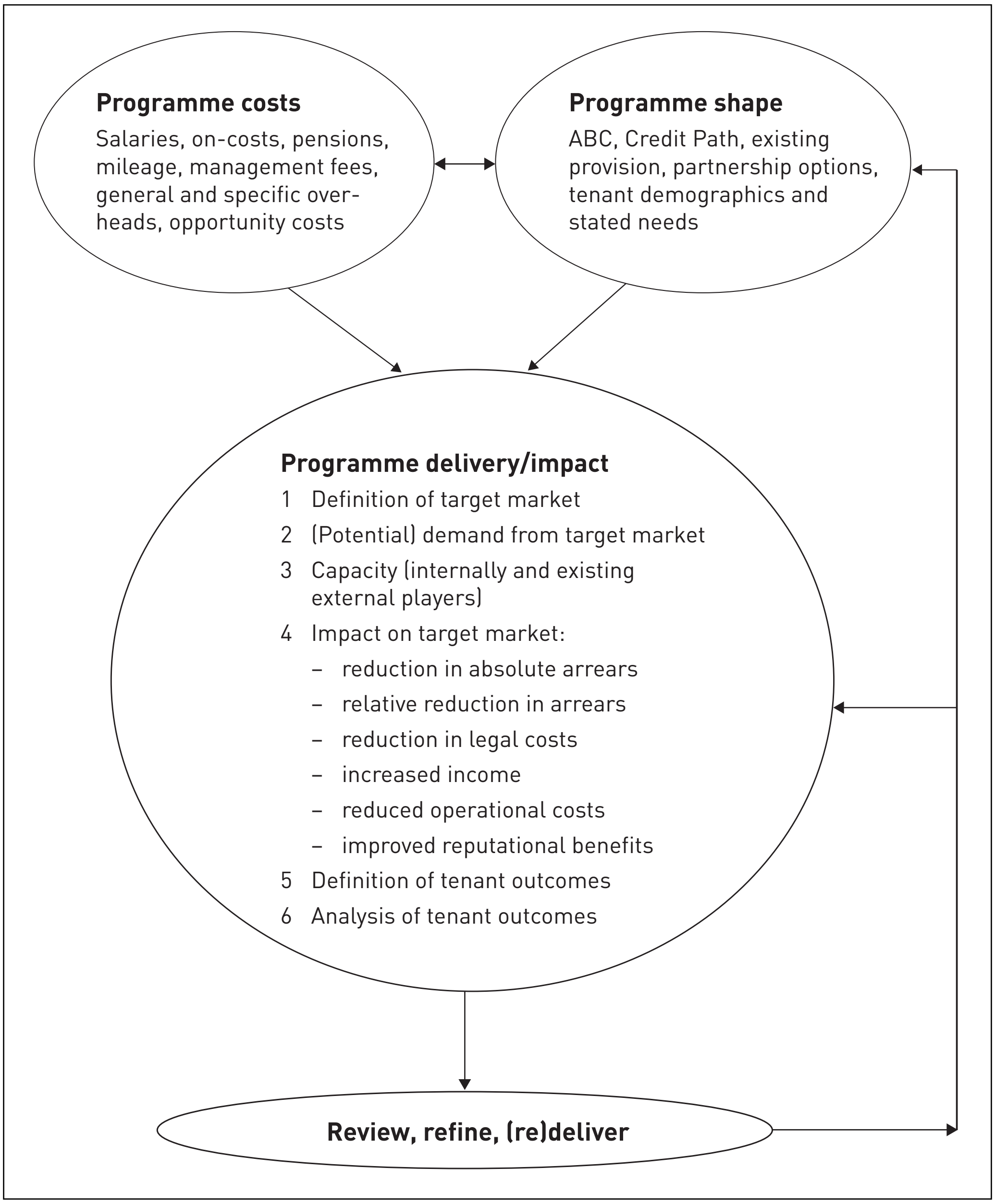
The calculations have, to a great extent, been based on live, real-time data provided by SHG employees and/or extrapolated from the credit control sequence database. Where estimates have been made, they are deemed very prudent, and this statement is already being proven during the course of follow-up work.

By providing this cost/benefit framework, the G-BIM can be used to help develop new financial inclusion interventions, evaluate existing ones and help shape future service development and delivery. The G-BIM also provides a platform for the adoption and integration of the financial inclusion service into the housing association's mainstream work, standing shoulder-to-shoulder with housing management and arrears management.

The G-BIM works by calculating both the cost (financially at an individual level) of a tenant being in the housing association's arrears process, and the financial benefits that accrue to the organisation as a result of the financial exclusion service existing (entirely based on housing association cost savings rather than tenant income maximisation).

Diagramatically the G-BIM might be understood as follows:

Diagram 2: Investing for inclusion – developing a social business model



Based on the work undertaken, the key finding is that an in-house ‘Model for Advice Services’ based on existing good practice and linked with other more specialist external providers of independent debt advice can generate cost savings in excess of the cost of providing the service. This can additionally be replicated based on relatively achievable tenant volumes. To indicate the scope for full cost recovery by social landlords, the return on investment calculated by Community Finance Solutions in relation to data provided from SHG ranged from an average return of 114 per cent up to 150 per cent.

Based on forecast activity levels, the typical summary of results expected is as follows:

Table 6.1: G-BIM Case Study Results

Financial inclusion programme costs yearly	£92,582	
Tenants assisted yearly	120	
Positive outcomes yearly	72	
		Cost benefit to Group yearly
Evictions prevented yearly	11	£72,936
Court hearing prevented yearly	11	£28,008
Other satisfactory outcome yearly	8506	£4,184
Total	**72**	**£105,128**
Net cost/benefit of programme yearly	£12,546	

Health warning

The cost of dealing with each individual debtor (resident) will, inevitably, be different and, more importantly, the cost base of each social landlord will also be different. We would advise caution if developing your own model and recommend that professional support is sought for best results.

The results detailed above discount the opportunity to potentially reduce the number of housing management service centre staff already dealing with rent arrears, and do not take into account the benefits that might accrue from tenant income maximisation or, in particular, a pre-tenancy or new tenancy intervention, which are thought to be substantial.

The next stage of development in the G-BIM will be to bring into sharp focus the qualitative benefits that accrue from investment in financial inclusion work, and to seek to monetise this value-added in real terms.

6.3 Meeting regulatory and performance requirements

A new rent arrears pre-action protocol came into force in October 2006. The protocol sets out specific steps which social housing landlords should use in the collection of rent arrears, the primary aim of which is more contact between landlords and tenants, before proceedings are issued, so that court time can be used more effectively.[58] The protocol contains no more than good practice guidance which many landlords already invoke before commencing proceedings. The court will take this into account when deciding whether or not to make a court order. One of the key points of the protocol is to advise tenants to seek assistance in relation to general debt problems.

The Audit Commission also assesses social landlords' performance in terms of arrears/income management as part of its inspection framework. It makes reference to the importance of 'preventative arrears and management processes' in its Key Line of Enquiry (KLOE 4) on housing management income.

The Housing Corporation Regulatory Code 3.70 contains an expectation that a housing association can 'demonstrate that their strategies and policies are responsive to their economic and social environment'.

Whilst these expectations do not require social housing landlords to explicitly address financial inclusion, it is clear that abiding by proven good practice will make a major contribution towards this expectation. In the report Breaking Free, the Chartered Institute of Housing recommended that 'the [social housing landlord] sector should recognise the contributions that financial inclusion work can play in helping to achieve its primary social and business aims'.[59] Ultimately, financial inclusion interventions undertaken by social housing landlords are about enlightened self-interest.

6.4 Fundraising opportunities

In addition to the business case for making internal investment decisions for financial inclusion intervention, practical assistance from third parties should be sought (see Chapter 10). Work can also be undertaken to identify and obtain external funding to resource elements of an organisation's Financial Inclusion strategy. Potential sources of support are the Government's Financial Inclusion Fund, national and local charities and the social housing landlord's own

58 ODPM (2005) *Improving the Effectiveness of Rent Arrears Management: Good Practice Guidance*.

59 Chartered Institute of Housing (2003) *Breaking Free*, August 2003.

commercial bankers who have a corporate social responsibility obligation to help address financial exclusion.

6.5 The case for action

Most social housing landlords already practice good arrears management, including contacting people early, building up relationships with housing benefit offices, and only using eviction as a last resort. But arrears are often caused by wider debt problems that get out of hand. Working in prevention-oriented ways through financial inclusion methods will help reduce arrears and prevent them recurring.

However, this challenge presents a ‘culture change’ for staff familiar with conventional practices that do not yet include a financial inclusion strategy.

To move in this direction some of the role choice and options for social housing landlords highlighted in Chapter 8 are relevant; either through simple sign-posting or by taking a lead in organising or developing financial services in-house to help tackle the problem for tenants.

The social case for action is overwhelming. Assisting tenants into financial inclusion helps increase their personal income, decreases their personal debt and offers them the opportunity for personal advancement. It contributes to their well-being, and wider communities benefit from a lower resident churn and stronger social cohesion.

If in doubt, count anything or everything

☑ The research undertaken to produce this guide has come across well-intentioned (pilot) projects that were implemented too quickly and managed without reference to key indicators of success. If in doubt, monitor as much information (inputs, outputs and outcomes (if possible)) as you can. When you come to seek professional help (which you probably will eventually), this homework will all help.

6.6 Summary

1	**Strive for the social impact but recognise and accept the need to justify investment**	It's just the way of the world.
2	**Unless you have done your homework properly, halve your expected outputs**	Dealing with people and such complex and sensitive issues does take time, albeit the results speak for themselves.
3	**Don't forget the social impact**	If in doubt count everything you can ahead of developing a formal evaluation framework.
4	**Manage the service carefully**	Expect change but ensure that this is managed rather than just 'service drift'.
5	**Document carefully**	To better meet emerging regulatory requirements.
6	**Fundraise to the 'horizon'**	Ahead of building your own G-BIM and case for internal, mainstream investment, look to share your findings and your success in order to attract funding to maintain and develop your services. Don't 'get caught with your pants down' just as the service is really taking off.
7	**If short of cash, partners are even more important**	By being clear of the scope of the services offered and managing these boundaries effectively, you can be more certain of maximising your investment. Where possible use partners to deliver their part of an integrated service.

Chapter 7

What do tenants and residents want and need?

Social housing providers are part of the market, and by the extension of credit through rent arrears are directly involved in financial exclusion issues. Unlike commercial landlords and developers they also have a social mandate. Social housing landlords are well placed to tackle financial exclusion.

Often they are the only not-for-profit organisation working in deprived neighbourhoods. They are in a position to provide a critical role as intermediaries or providers of information, advice and suitable financial products to tenants and residents

Financial exclusion, as highlighted in Chapter 4, is concentrated among social housing residents who generally have low incomes, and of which about 80 per cent are deemed to be financially excluded. Of the one in twelve households that do not have access to a transactional bank account, about 60 per cent live in social housing.

Living in social housing and/or being poor does not necessarily mean that residents are financially illiterate; they are juggling all the time and do count the pennies to save pounds. Their strategies are different from people in salaried employment (who are probably less likely to know exactly where they are up to). ‘Cash is king’ and juggling budgets is a constant necessity and headache. If a child’s birthday is coming up and the rent has to be paid, the decisions are not easy.

7.1 Residents’ wants

As Maslow’s Hierarchy of Needs, outlined in Chapter 12, indicates people can be simple folk. Firstly needing to take care of basic needs; however, once these are dealt with they, by their very nature, aspire to move onwards/upwards. Financial inclusion helps deal more effectively with both an individual's basic needs and their more aspirational ones.

As previously evidenced, this issue is not small scale.

It is estimated, by Debt on our Doorstep (DooD), that 3-6 million people are in this situation. Research by the NCC and DooD confirms that the 'poor pay more…or get less'.[60]

In practical terms, social housing landlords can become more involved in different ways. The decisions about how to engage need careful consideration and will depend on local circumstances and organisational capacity. To begin this process, social housing landlords should, firstly, establish their own understanding of their residents' needs and find out what their residents actually want.

Probably no way around this

In whatever sector your organisation operates, understanidng your customer is fraught with difficulties, can be expensive and comes with no guarantee of ultimate success.

However, the age-old mantra alluding to preparation and performance tends to hold true.

To supplement existing research and to satisfy the internal business case, social housing landlords need to undertake (some) research to assess the extent of financial exclusion within their resident population. This data can be collected in a whole host of ways; including either by adapting an existing residents' survey to incorporate questions on financial exclusion or by commissioning a dedicated financial exclusion survey.

To validate the findings of such research, it would be helpful to hold a number of focus group meetings to discuss the results and your initial proposals for developing new services. Residents should be asked to appraise the assumptions made about the availability of local services and to help refine the proposals prior to implementation.

60 National Consumer Council (2004) *Why do the poor pay more….or get less?* London: NCC.

7.2 Residents' needs

This (primary) research should be run in parallel to researching an organisation's tenant demographic profile since this can be key to developing a locally sensitive and comprehensive financial inclusion strategy. Even before researching financial exclusion, an organisation should establish a clear understanding of their tenant demographic – see Tip 'Know your customers' under section 4.3.

At a very basic level a simple starting point to better understanding financial exclusion amongst your resident population is to examine and compare the demographics of customers that are in rent arrears to those currently paying their rent by direct debit.

Working with London and Quadrant Housing Trust, Community Finance Solutions and Community Consultants have carried out five 'sub-regional surveys'.

Quick link

☑ Go back to section 4.3 to find out more on the theory of what people need.

As can be seen from the findings, the similarities are significant. In these studies, Financial exclusion can be seen to be concentrated among the poorest households. In particular, the use of moneylenders is prevalent among lone parents and other households with children.

Having established the scale of the problem, it is equally important to find out about what services already exist to tackle financial exclusion. For example, what other local social housing landlords are doing and what specialist bodies, such as the debt and money advice agencies are currently operating in the local areas to be targeted (See section 10.6).

Without doubt the findings of any customer research will be different for each individual social housing provider. However, as has been shown, the range of solutions to the needs identified can be relatively basic (even as basic as 'ABC') and it is from this platform that work can commence on developing appropriate solutions to meet need.

7.3 Summary

1	**Scale and complexity**	This is a large-scale and complex (set of) problems.
2	**Tenants want and expect social landlords to provide leadership in their communities**	It's what tenants tell us.
3	**Lack of material wealth does not necessarily equate to poor financial literacy**	People with less cash to play with are often very good managers, but their strategies are usually different from more financially included people.
4	**'Walk before you run'**	Understand clearly what your customers want and need before acting.
5	**Wants and needs are not necessarily the same**	e clear about what you are looking to provide and use the ABC (DEIP) and Credit Path (see Chapter 9) frameworks to scope this.
6	**Financial inclusion can help deal with both basic and complex needs**	Cross-refere nce to the analysis in Chapter 11.

Chapter 8

Delivery options for social housing landlords

8.1 The rationale for action by a social housing landlord

Community finance inclusion initiatives, by their very nature, are largely aimed at encouraging the participation of excluded individuals and groups – many of whom are housed by social housing landlords.

Reasons for involvement can be summarised as:

- people who are better able to manage their finances are more likely to be able to maintain their tenancy. This is often called financial capability;
- less money spent servicing debts results in higher disposable incomes for residents, and will help maintain stable communities and, thereby, protect the value of the social housing landlord's assets;
- financial inclusion initiatives provide an opportunity to expand the social housing landlord's business development activity, and will raise the social housing landlord`s profile in the minds of its tenants and the wider community, building brand value;
- together these activities help the social housing landlord to mitigate financial risks, to increase efficiencies and thereby reduce operating costs.

'Pennies from heaven'

☑ If you are purely interested in the business case for financial inclusion project investment, skip back to Chapter 6 and the Southern Housing Group Cost-benefit appraisal.

8.2 Promoting financial inclusion – options for a social housing landlord

Research by Community Finance Solutions has identified the following six possible roles that a social housing landlord could select for supporting financial inclusion activity.

(a) Signposter

Financially excluded people find it difficult to cope with day-to-day living costs and, if they do so, tend to approach advice agencies for help when the problems have become (sometimes too) severe.

Social housing landlords' tenancy support staff have day-to-day contact (in person or on the telephone) with many residents in hardship or at risk; equipping and empowering these employees with relevant and timely information about financial inclusion initiatives and local service providers can enhance their effectiveness in supporting these residents. Empowering housing officers and rent collection staff is equally important.

To help set up systems to do this, it is vital to map local and national organisations where tenants can be referred. To make a start, tools like the Transact Financial Inclusion Database of specialist organisations working in the field should be checked for local and regional contacts. See www.transact-online.co.uk

'Each to their own'

☑ It should not be up to Financial Inclusion Officers to develop bespoke databases (sitting alongside core applications). It is their job to populate them with useful information.

Most social landlords have an IT department manager who can much more easily lead on and help develop the systems FIOs require to do their jobs better and more efficiently.

Use existing resources wisely.

The perfect opportunity to inform residents about the help available internally and via partners is at the sign-up interview. It could be argued that as a social landlord such signposting activity should already be part of the housing management/welfare support function.

(b) Capacity builder

Social housing landlords could broaden the capacity of existing (Third Sector) finance providers by out-posting existing housing staff or entering into long-term contractual agreements to fund new activities/posts. Examples of this might include:

- Staff resources in credit unions and community development finance institutions are usually stretched. By providing, contributing to or even paying for, a post, social housing landlords will enhance the capacity of the existing organisation as well as providing (guaranteed) access for their own residents.

Bristol Community Housing Foundation (BCHF) has helped Purdown credit union set up a popular budgeting advice, household insurance and loan service for their tenants. The BCHF Finance Director provides pro bono support as the credit union Treasurer and the Association has assisted with accountancy support and developing a financial strategy for credit union growth.

BCHF tenants now account for one-third of Purdown Credit Union members. In recognition of the success of this innovative community finance partnership, the scheme was the overall winner of the Guardian Public Service Award in 2006.

- Other basic financial services (eg, Basic Bank Accounts and savings products) might be provided through a partnership with a mainstream financial institution.

The social housing landlord's banker, may have launched a 'Trusted Partners Programme' to develop such services whereby the landlord could become the bank's agent for opening Basic Bank Accounts and/or associated financial service products.

With landlords increasingly looking to move towards direct debit for collection of rents, with (housing) benefits paid direct (and in the years ahead with the advent of the Local Housing Allowances), this presents a very real opportunity.

- With the rise in energy prices over the past five years, fuel poverty is now again on the increase. This issue is important for many residents and could be addressed by entering into arrangements with a fuel supplier for special fuel tariffs, energy efficiency measures, bill payment, money and energy advice services.

- Help/support tenants to switch to loser cost providers.

'AAA-rated' financial inclusion – further steps?

☑ Other aspects of financial inclusion and solutions to issues such as fuel poverty are covered more fully in Chapter 12.

Capacity building activity such as the pathways described above will necessitate entering into (probably more formal) longer-term partnership arrangements for which funding, particularly for pilot schemes, is potentially available from a cocktail of funders.

(c) Underwriter and community investor

Having built up large property assets and significant financial surpluses, social housing landlords have financial clout. They are obliged to address their long-term business objectives and, in doing so, they can find creative ways to balance conflicting demands to provide new affordable housing, repair and improve existing homes, contribute to sustainable communities and manage risk.

Despite a trend towards tighter margins, most landlords have the capacity to invest in the development of financial inclusion initiatives, whilst Chapter 6 outlines a strong business case for investment from mainstream budgets.

One way to utilise this financial clout is to assist in underwriting the activities of others. For example, this might include:

- entering into an agreement with an existing CDFI.

Increasingly these organisations lend money to both local residents and social enterprises which have the capacity to repay. Typical borrowers could be a community nursery, a local recycling project, organisations offering training for unemployed people, or indeed an entirely new enterprise.

Such social and community businesses are potentially of interest to the residents of social housing landlords – both for the services they provide and the training and job opportunities available.

- An alternative to these approaches could be for a social housing landlord to finance loan guarantees or a guarantee fund in order for its residents to benefit from advice and lower-cost credit lending facilities.

People in multiple debt, including housing rent arrears, who wish to make a fresh start often require their outstanding loans to be rescheduled/consolidated but they are often perceived as not a good or even reasonable credit risk by mainstream providers.

In such circumstances a loan guarantee could allow a debt consolidation to take place, to the advantage of the social housing landlord, the lender(s) and the borrower. Such an arrangement might be negotiated with a local credit union or CDFI.

(d) Promoter and (joint) funder

Research undertaken by social landlords to appraise the demand for financial inclusion services is likely to demonstrate that, except where effective credit unions or CDFIs exist, there is either a gap in the provision of affordable personal credit and/or poor people are forced through lack of choice to pay overly high rates of interest.

One role that a social housing landlord could adopt would be to promote and joint fund the work of credit unions and CDFIs by providing supplementary lines of credit for both housing and non-housing purposes:

- The housing-related credit could focus on the provision of loans for home improvements and possible guarantees by social housing landlords that might support a ‘fresh start’ for their tenants in multiple debt.
- The non-housing related credit would focus on opportunities for personal credit or self-employment finance – provided both directly to borrowers where credit unions or CDFIs do not exist, otherwise through them where they do.

(e) Co-developer

If the research findings show gaps in existing local provision, social housing landlords could work to help develop a range of services that enable individuals to move on. These might include:

- money advice budgeting schemes that work together with other agencies to free local people from the grip of predatory lenders;
- transition to work mechanisms including ‘housing benefit’ loans that will eliminate the risk of taking a job resulting in rent arrears (because of the complex and confusing way that housing benefit works);
- business start-up finance;

- home-start savings and loans that will enable new tenants to furnish and equip their home without taking on expensive store card, moneylender or catalogue credit;
- development-based savings facilities, for residents and key workers;
- financial literacy services, provided by extending residents' participation activities;
- furniture re-use partnership, for more information see the National Housing Federation and Furniture Re-use Network guide Win-win in the 'Free publications' section of www.housing.org.uk.

Such activity will obviously involve dedicated social housing landlord staff time and, as such, will require an ongoing annual revenue contribution above that normally associated with the traditional landlord functions.

Russet Homes, in Kent, is a good example of such an intervention. Since April 2004 it has co-funded a specialist debt advice service for tenants with the local CAB. The project has been highly successful and the service is running at capacity. To widen the service, the association has additionally funded the Tunbridge Debt and Advice Service which offers out-of-hours appointments.[61] Russet Homes has found that its tenants value the independence of these third-party services.

(f) Owner

The final option for social housing landlord involvement is to establish a 'go it alone' model.

Such an approach would provide a dedicated service which not only supplements and complements the traditional landlord function but also directly addresses barriers to financial inclusion, eg, through the provision of debt advice, welfare benefit take-up, bill payment and transactor services, energy efficiency grants, affordable credit etc.

Sometimes 'going it alone' appears the only option. Broadacres Housing Association in North Yorkshire could not attract enthusiasm from its local CAB to joint fund a debt advice service for its 4,500 tenants. So it set up its own in-house project. In the first year, the adviser raised almost £70,000 in unclaimed benefits for tenants. The success of the scheme has enabled the housing association to rethink its approach to debt issues and is leading to the development of a holistic service.[62]

61 National Housing Federation (2006) 'Financial Inclusion Case Studies'.

62 Ibid

8.3 The role of education and training

To be successful, financial inclusion action requires social landlords to win over the 'hearts and minds' of their board members, senior managers and other staff.

As the success of Broomleigh Housing Association has shown, this internal management transformation can pay off in both major improvements for tenants and in terms of impressive reductions in rents arrears, evictions and voids. To make this change requires a commitment to training and a reorientation of priorities which place a premium on hands-on partnership work, internally among staff, and externally with advice agencies, community finance providers, banks and, in many cases, with other social landlords.

There are no tailor-made courses yet available to social housing managers and staff. This gap is likely to be addressed in future. At present there are some training modules that are relevant to the needs of workers in the social housing sector. A number of the pioneering housing associations that have developed financial inclusion projects have drawn upon the courses available to money advice workers and community finance staff. There is clearly scope for elements of these courses to be drawn together in a more bespoke way.

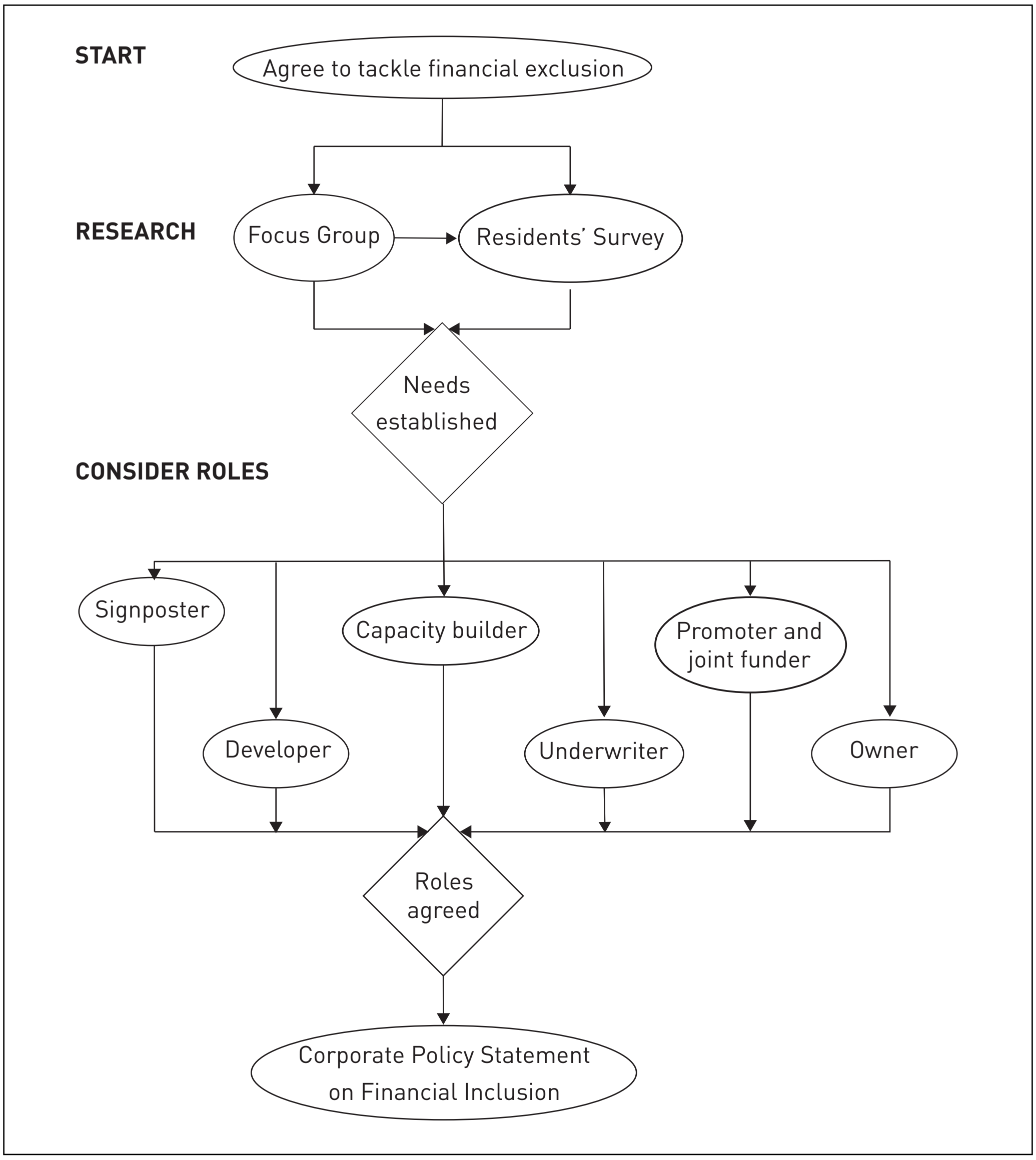
In the advice field, Citizen's Advice and Advice UK run training courses in both generic and specialist money advice. SAFE (see section 10.4.3) also runs training sessions in relation to financial capability and in successful methods for promoting basic banking service take-up by hard-to-reach groups. The forging of partnerships with advice agencies has led in practice to the co-development of training programmes. Fair Finance in East London and Birmingham Money Advice and Grants (BMAG) have developed this with their growing number of housing association partners.

Community finance providers also have training programmes that can be tapped into. The National Association of Credit Union Workers (NACUW) runs accredited training courses, and the Community Development Finance Association offers a similar programme for both full and associate members. Indeed, in many regions the setting up of a training event to raise awareness among housing managers has often led to the co-development of a financial inclusion action plan.

It is important for a broad spectrum of housing staff to be trained but there are key roles to be played by staff involved with rent recovery, housing support, lettings and reception services. The involvement of money advice trainers and community finance specialists in the shaping of a financial inclusion action plan can assist in sharply focusing the plan in ways that can make the service delivery more bespoke and effective.

Diagram 3 provides a summary of key implementation tools and mechanisms that you need to put into practice a successful financial inclusion action plan.

Diagram 3: Action by a social landlord



8.4 Setting off as you mean to go on – new tenancy support opportunity

Social housing landlords are increasingly being asked to provide lettings for applicants with no experience of living independently and who are thus particularly vulnerable to getting into debt at the commencement of a new tenancy with the pressures and costs of moving and furnishing their new home.

200,000 new tenants are handled annually by housing association managers. The offer, acceptance and sign-up of a new tenant is a unique opportunity for the landlord to act as a gateway to a range of information and services that tackle poverty and financial exclusion.

At Poplar HARCA in East London, managers use the sign-up interview to complete a basic financial assessment with the tenant. The housing officer assists in the assessment. Where a potential need is identified and money advice would be helpful, an appointment is arranged with an in-house financial adviser. In order to encourage take-up of this free advice, the financial adviser is also responsible for decoration allowances. As the payment of the decoration allowances is by cheque, this helps to identify tenants who may not have access to a bank account. Where a significant debt problem exists, the case is transferred to specialist debt advice agencies Poplar HARCA works with, such as the CAB and the Island Advice Centre.

8.5 The way forward – strategic issues

Whatever choice of role is made, the appropriate partnership arrangements will be influenced by a combination of needs to be addressed, existing agencies in the locality willing and able to partner, and the availability of both internal and external funds to drive a sound action plan forward.

Success in tackling financial exclusion must be characterised by a proactive strategic approach underpinned by a corporate policy on financial exclusion.

Social housing landlords should produce a statement (financial inclusion strategy) which sets out the organisation's commitment to provide help and support to residents who find themselves financially excluded. The essential building blocks to achieve this are summarised as guidance below.

8.6 Summary of key points

1	**Action research**	Investigate the financial service needs of your tenants. Use survey forms from other social housing tenant surveys and also capture relevant data from your demographic profile and tenant satisfaction forms. Identify existing provision of services including an assessment of strengths, weaknesses and gaps.
2	**Focus groups**	Set up tenant and resident focus groups to test the survey results and to explore a number of potential advice and financial services solutions.
3	**Identify intervention roles**	Consider the range of possible intervention roles that your organisation could develop, ranging from Signposter to Owner. Develop a role best suited to your organisational capacity but also in relation to the scope for leverage through financial inclusion partnerships with other projects that are making a difference in key operational area(s). In relation to advice provision, weigh up the choices of in-house provision or joint working with third parties. In some cases, a mixed approach could be best.
4	**Service Level Agreements**	Consider establishing agreements with key delivery partners and base these on outputs that are drawn up with reference to success elsewhere that current good practice indicates as achievable.
5	**Training for staff**	Financial inclusion work is challenging and in more ways than one requires a 'culture change' in social landlord practice. Look out for training opportunities for your staff and board members and talk to organisations who are pioneering the models about the training services they may be able to offer.
6	**Financial inclusion policy**	From the investigations and focus group work, produce a financial inclusion corporate policy. Identify a champion on the board and implement the agreed intervention role(s).
7	**Financial inclusion action plan**	Consider ways to extend your financial inclusion action plan by developing pathways for tenants to acquire assets. Examine emerging good practice in this area in relation to the Child Trust Fund and incentives for tenants to save such as the Rentplus scheme of Notting Hill Housing Trust (See Section 9.4).
8	**Evaluate performance**	Establish performance indicators and benchmarks to enable the adopted Financial Inclusion Policy to be evaluated following implementation. Initially a six-monthly review would be recommended and thereafter an annual review once implementation appears to be achieving positive results.

Chapter 9

The Credit Path – integrating financial inclusion services

9.1 'ABCDE' – just when you thought 'ABC' was easy

The Treasury recognises the need for several of the services of Advice, Banking, Credit, Deposit (savings) and Education (now 'A, B, C, D and E') to be joined up. Awareness is growing that this is a problem to be addressed.

Community Finance Solutions research has shown that a diversified loan portfolio for CDFIs or a credit union is essential for achieving social business viability in the medium term, and operational financial sustainability over the longer term. Credit unions and CDFIs are longer-established in the USA, and there the most successful organisations have achieved operational viability by establishing a broad and mixed portfolio of loans including smaller consumer loans, larger home improvement loans, car loans, business loans, non-profit facilities loans and, more recently, mortgages.[63]

There is a risk that the DWP Growth Fund's narrow, restricted focus could unintentionally hold back the goal of operational sustainability for credit unions and CDFIs.

63 Brown, M., Conaty, P., Mayo, E. (2003) *Life Saving – Community Development Credit Unions*, New Economics Foundation, the National Association of Credit Union Workers and the National Consumer Council.

The 'Credit Path' model, developed in the USA as a mechanism for community development credit unions[64] and CDFIs to tackle financial exclusion, offers a way forward to British community finance practitioners, money advisers and social landlords by plotting how they might work together to make the service linkages operate as a ladder out of poverty.

9.2 Linking the delivery of 'ABCDE' services – the Credit Path approach

The Credit Path approach to tackling financial exclusion provides a practical strategy for meeting the respective financial service needs of unbanked and underbanked households on the one hand, whilst, on the other hand, assisting community finance providers to develop a balanced portfolio to enable them to develop and extend their services to an increasing number of households.

Since it was introduced in 1995, this model has been developed and improved by Bill Myers, Executive Director of Alternatives credit union in Ithaca, New York. Since 2000, the use of the Credit Path model has become increasingly popular as both a methodology for financial inclusion and for product development among American community finance managers.

There are four stages of development on the Credit Path. The rungs of the ladder include:

Stage 1 – Transactor services

As we have seen, financially excluded households are frequently in debt to high-cost lenders and not in a position to save. Initial help can be provided by a credit union, CDFI or mainstream partner offering a Basic Bank (budgeting) Account to help people with financial problems to manage their money better, to pay bills more easily and to repay debts. It makes sense to combine this service with generic financial counselling, budgeting and money advice.

Stage 2 – Saver services

The provision of differential interest rates on credit union loan accounts and annual dividends on savings needs to be kept under regular management review. Pricing loans correctly is sound business management.

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64 Community development credit unions (CDCUs) are a specialised form of credit union with a mission to serve low and moderate income households in underserved markets. CDCUs in many ways combine together the work of a credit union and a CDFI. They do sometimes do this through a group structure. The work of the Community Banking Partnership approach in England and Wales is seeking to develop CDCUs in the UK. There are 225 CDCUs in the USA and they are represented by the National Federation of Community Development Credit Unions based in New York. For further information see www.cdcu.coop.

Providing incentives for members to save is vital to attract those who can save and to enable lower-income households to begin to save to meet future needs.

For a credit union, savings are also essential to secure sufficient funds from members to grow share-capital assets from which to make further loans. Thus this cycle of local savings needs both to be mobilised and increased year-on-year to enable the credit union to grow successfully and to be in a position to make larger loans.

Stage 3 – Borrower services
Community finance lending managers can readily appraise the ability of members or prospective borrowers to service a loan based on the track record established during the earlier stages of the Path or through other cash flow information such as performance in paying household bills.

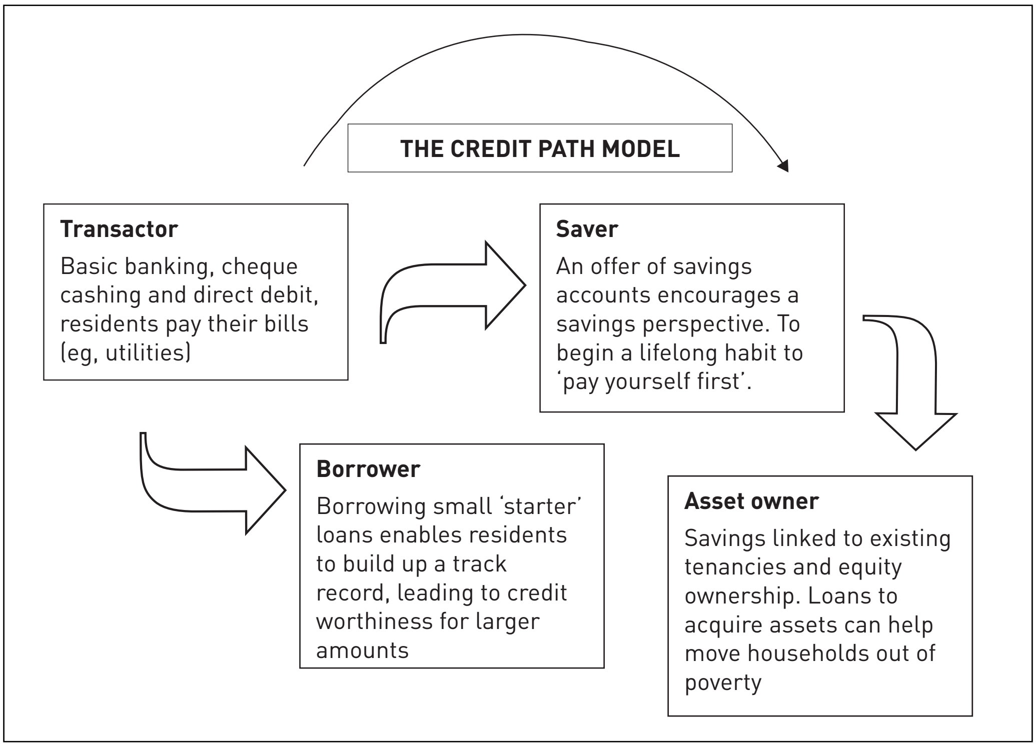
This captured data enables the credit to be carefully structured to a level that the transactor or saving performance record indicates to be affordable.

Stage 4 – Ownership services
The success of CDFIs and credit unions in the effective delivery of (low-cost) loans, as an alternative to predatory credit, saves members a cumulative and growing level of interest every year and enables households to use this saving to build personal assets (at the very least for unexpected ‘rainy day’ expenditure when, for example, the washing machine breaks down).

The most successful credit unions and CDFIs achieve operational and financial sustainability by the development and delivery of larger, medium- and longer-term loans that, in turn, build asset wealth among their members.

Asset development opportunities for low-income households can, therefore, be linked to the goal of building a balanced portfolio for a community finance provider including loans for cars, home improvement, business development plus other forms of (potentially secured) asset-based lending.

Diagram 4: The Credit Path – joining up financial inclusion services



Given the unpredictability of consumer demand, the pattern of household take-up of the four Credit Path stages is not always linear. However, while recognising this, the pathway up the ladder is felt by the proponents of the model to provide an effective enabling process for financial inclusion.

Snakes and ladders

The stages set out in sequence above were the first version of the model. 'Saver services' were assumed to form the second stage and 'Borrower services' the third stage. Credit unions in Britain have also assumed for decades that this progression should be the way to achieve financial inclusion.

However, contrary to these views, two recent research studies have examined the operation of the Credit Path model and found that a linear progression cannot be readily assumed nor easily encouraged as the operational picture in response to credit union member demand is in fact far more nuanced.[65]

A key insight from the original model does appear to hold, namely that 'Transaction services' provide a lower-threshold entry point for low-income households into a credit union than do 'Saver services.' This highlights the need for the provision of current account (Basic Bank Account) services, budgeting advice and bill and debt-repayment facilities.

The research has found that whereas in the past credit union managers might have expected a linear progression from saving on to borrowing, the modern market reality is that as instant credit has become more available, 'Transactor-borrowers' are now as common as 'Transactor-savers'.

Indeed, 'Transactor-borrowers' are more common among low-income households, which is an interesting finding. The evidence from this research has shown that households have diverse patterns of need and the take-up pattern is not easy to predict.

The research has also found that households tend to become 'savers' the longer they are with the credit union. However, life changes or life pressures can quickly cancel out what savings households have accumulated. Younger low-income households with children or single people on a low income find it the most difficult to build up savings.

Importantly, evidence suggests access to affordable credit to be 'by far the most important concern of the financially excluded'[66] and is the 'hook' in the model around which a wider relationship can then be developed.[67]

Most households fall simultaneously into two or more slots on the Credit Path. Less than 1 per cent of the survey sample was found to fall into just one of the four categories.

Life events that had impacted on interviewees and sent them 'back' down the Credit Path ladder include divorce/separation, job loss, sickness, a death in the family and bad financial

65 The Aspen Institute and Alternatives Federal Credit Union, 'Toward a New Credit Path: Lessons from a Survey of 904 Alternatives Federal Credit Union Members', a summary of research by Shorebank and New England Market Research, January 2007.

66 Evidence 166 Memorandum supplied by A4E House of Commons Treasury Committee. Financial Inclusion: credit, savings, advice and insurance Twelfth report of session 2005/6 Volume II, House of Commons (2006).

67 Alexander, N. (2007), *Credit where credit's due: A Report for the National Housing Federation* (September 2007).

advice. Despite these setbacks, more than half the sample reported that a financial crisis triggered by one of these life-changing events spurred them on to take greater control over their financial situation. This is an important finding as it shows an inherent motivation by households to engage positively with an appropriate range of financial services to meet a change of circumstances. However, this is only clearly possible if a flexible structure of pathways and options, like the Credit Path, is on offer.

Back to 'basics' (again)

The motivation of households to take control of their finances/lives, especially in time of crisis, is truly inspiring and a tribute to the human-condition.

Given the comments earlier in section 5.1 about the lack of motivation within the banking industry to effectively promote Basic Bank Accounts (as against the take-up of the POCA), it begs the question just what might be achieved if all the stakeholders 'come to the table' willingly?

Most interestingly, a number of interviewees commented that access to budgeting facilities with the credit union was vital to help them control expenditure, achieve financial goals and enable them to build up savings and assets. Thus the Credit Path works positively in all sorts of ways for credit union members but also, and equally importantly, for staff and volunteers to provide guidance on practical approaches for achieving social policy and social justice goals.

In summary, what the research findings suggest is that the Credit Path, despite a somewhat unpredictable pattern, nonetheless forms a valuable, integrated framework to guide the delivery of community finance services for the key products that are needed if people are to be helped out of financial exclusion and, ultimately, as a route out of poverty and into asset-ownership.

The research work also found that the Credit Path model provides:

(a) a useful product design tool for credit union managers;

(b) a helpful training and orientation methodology for credit union managers and staff;

(c) a valuable financial education framework for credit union members;

(d) an understanding of the needs of unbanked consumers and guidance about how to assist them to overcome financial exclusion and become asset-owners.

Some initial work on the Credit Path model has been pursued by Enterprise Credit Union on Merseyside through its work on a community banking partnership approach.

Quick link

Interested in Community Banking Partnership? – then skip to sections 9.3 and 10.9.

Enterprise Credit Union is developing new ways to link up its savings and lending work more strategically with its Money Advice and Budgeting Service (MABS). The credit union managers can see the scope to develop a 'borrow to save' account (integrated with money and budgeting advice). This new product has the potential to link both the Credit Path transactor service with the credit union's savings service, thereby operating in a cost-savings and budgetary way to help ease those without a positive credit history into a position where they are more likely to access conventional loan products. By providing a budgetary structure to repay instant loans easily, this new product could assist households using doorstep lenders and those without previous savings experience to switch to a new credit union system.

The Credit Path approach can provide a strategic framework to assist social landlords to develop practical partnerships for delivery with a group of local providers including:

(a) (one or more) credit union partners;

(b) CDFI partner(s);

(c) in-house advice staff and/or access to external specialist money advice agencies;

(d) private sector partners including banks and building societies (to name a few).

There are models of good practice that can help inform the development of such a plan by social landlords to join up delivery to tenants.

9.3 South West Pound – an integrated model for the Credit Path

Rural financial exclusion is a major challenge. Poor people in most rural areas are often hidden. Devon and Cornwall Housing Association was concerned with this growing problem and could see progress with partnership models emerging in urban areas. It did not have the resources itself to fund a solution and decided to take the initiative to bring its regional housing association peers together to explore joint possibilities.

At the same time, Devon County Council, in developing its programmes to tackle rural poverty, was keen to become involved. With funding from the County Council, the South West Social Landlords Partnership Group, Monument Trust and Barclays Bank, a feasibility study and business plan was completed in March 2006.[68]

The group was attracted to an approach such as the Credit Path which would join up the service delivery of the partners and also ensure that the full financial service needs of low-income residents was met. The group was attracted to an approach such as the Credit Path which would join up the service delivery of the partners and also ensure that the full financial service needs of low-income residents are met. In addition to Devon and Cornwall Housing Association, the other seven housing associations involved included:

- North Devon Homes
- The Guinness Trust
- Sanctuary Housing Association
- Sovereign Housing
- Signpost Housing
- Tor Homes
- Westcountry Housing.

In association with partners, the model aimed for was expected to be able to provide:

- access to free face-to-face advice;
- access to banking;

68 Devon Community Banking Partnership – Feasibility Study and Business Plan for the period 2006/2007 to 2010/2011.

- access to affordable credit;
- access to savings and deposits;
- access to financial literacy education.

The research called for the formation of a Devon Community Banking Partnership, which was set up in early 2006 as a Company Limited by Guarantee and began to trade in autumn 2006 as D£VON POUND. Devon County Council, Friends Provident Foundation, a group of local housing associations and a number of local funding agencies provided start-up funding and this impressive backing and a partnership with South Coast Moneyline helped secure investment from the DWP Growth Fund. At the end of 2007, D£VON POUND changed its name to South West Pound.

The research has also shown a need to differentiate specialist medium- and longer-term money advice providers from the delivery of a new short-term 'light touch' form of prevention-oriented money advice. In practice, much of this light touch advice is best provided from an independent agency. However, housing association staff should also be trained to understand the best solutions available for their tenants and under a well-designed 'money advice light' programme can take on a complementary role to the work of a third party debt advice partner.

Tawside Credit Union, Devonlane Credit Union, Plough and Share Credit Union and Ilfracombe Credit Union are involved with Devon CBP and working with the housing association group.

Kevin Osborne, the South West Pound manager describes the key benefits of the CBP approach in this way:

> *The dispersed nature of rural communities means that a multi-agency approach to working is essential for effectiveness and efficiency. Our generic staff, trained to build relationships and to understand the activity of local service providers such as credit unions, Citizen's Advice, community and voluntary groups, means that the customer gets an initial 'money health check' and is then supported by an appropriate service providing organisation. This provides a single point of contact for all customers to receive money assistance in whatever form that may take.*

The business plan for South West Pound is ambitious and the five-year investment requirement is £3.5m. DWP Growth Fund support has primed the pump to enable lending activity to move ahead quickly and other initial core investment funding has been sourced.

The outputs in the first nine months of the Devon CBP operations are encouraging. Over 900 tenants have been supported by the service and credit provision is running at between 60 and 70 new loans a month. The core service for tenants includes about three hours of information, advice and financial service support work. Housing association members of South West Pound contribute significantly towards the cost of this package.

9.4 HomeSave – a further development of the Credit Path

The Ownership step on the Credit Path is important along the pathway to financial inclusion. Developing incentives for savings are key in this area. The Child Trust Fund is one pathway but there are other opportunities for asset development that social housing landlords are involved with, such as low-cost shared ownership and HomeBuy. There are, though, barriers here to be overcome. A recent Ipsos MORI survey among tenants in London has revealed that 63 per cent wanted to own their own home, 78 per cent felt that home ownership was a good investment, but 73 per cent were put off buying a property for fear of debt. The MORI researchers grouped the tenant respondents in the following categories:

- **ready-to-buys**: 15 per cent of the respondents and the group both willing and likely to buy a home within five years;
- **aspirational home owners**: a second group of 15 per cent of respondents wanting to buy but not ready or in a position to do so in the next five years;
- **life-style renters**: a group of 14 per cent in the survey who are in a position to buy but prefer to rent;
- **pragmatists**: a group representing 33 per cent of respondents who want to buy but feel they can never afford to do so;
- **locked-in renters**: a group of tenants who cannot afford to buy and do not want to.[69]

In the current difficult market for home ownership, any novel approach needs to considered cautiously. Over the next couple of years with fixed rate mortgage deals expiring, a major

69 Twinch, E. (2007) 'Mortgage debt fear of social tenants', *Inside Housing*, 17 August 2007.

increase in repossessions is widely forecast. Given the relaxation of traditional lending criteria, there are concerns that a sub-prime crisis will occur in the UK market during 2008.

In the USA, savings incentives schemes like the Savings Gateway, have been developed to encourage asset development and pathways into home ownership. The Chartered Institute of Housing and Shelter have researched how a similar scheme might be developed here. The model they have come up with is called HomeSave.[70] The proposed service would encourage savings through matched funding at a 1:1 rate or some other attractive proportion for each £1 a tenant saves.

HomeSave has attracted interest from a group of housing associations including Sovereign Housing Group and Notting Hill Housing Trust. Notting Hill Housing Trust has launched its Home Options as a pilot service to help its tenants find routes into affordable home ownership. The project provides a one-to-one advice service to help tenants consider their options. Tenants receive a detailed assessment of their finances and a financial action plan which includes help and advice on savings and managing personal finances.[71] The service also provides support for tenants throughout the home buying process.

To provide a savings incentive, Notting Hill Housing Trust has introduced a Rentplus scheme. Tenants are enabled to save by paying extra money with their rent. They are also given a financial reward for saving in this way and by paying rent through direct debit. Moreover, additional bonus payments are paid by the association in return for the tenant taking responsibility for minor repairs.

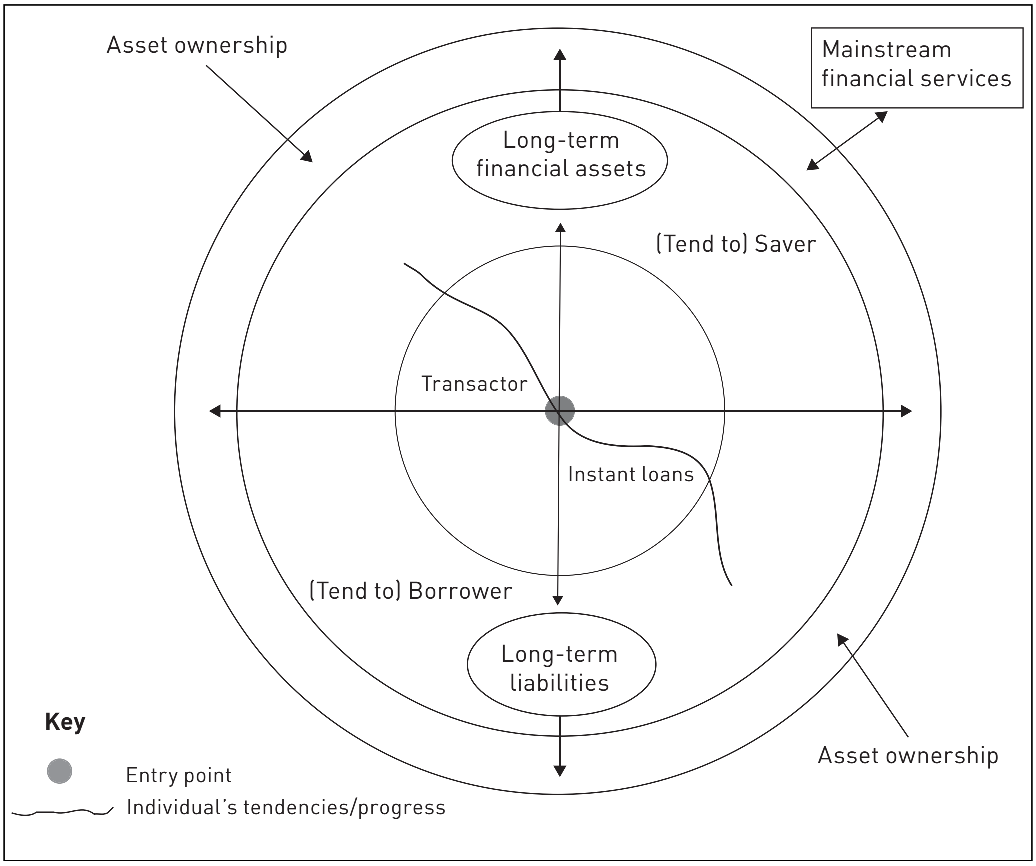
In the USA, Home Ownership Centres have been developed successfully and these have parallels to the Home Options and HomeSave ideas. These centres are also linked to CDFIs and assist low income home owners with support for repairs and maintenance needs on an ongoing basis. Some Community Banking Partnership organisations are seeking to develop Home Ownership Centres on a pilot basis in 2008-09. All these ideas are still in the early development stages, so social housing landlords need to consider them carefully.

70 Terry, R., Simpson, M. and Regan, S. (2005) *HomeSave – Increasing choices for tenants to own assets*, Chartered Institute of Housing and Shelter.

71 National Housing Federation (2006) op.cit.

9.5 The Credit Path 'II'

Diagram 5: The Credit Path and asset development for tenants



The Credit Path is undoubtedly an excellent way to approach the thorny issue of integration when developing your financial inclusion strategy and action plan.

However, whilst the authors agree with the concept of the Credit Path they also feel that the situation is too complex to be described as a simple ladder with linear progression and prefer instead the idea of a 'zone' as demonstrated in Diagram 5.

Entry to the model invariably comes via the 'eye' at the centre with the 'hook' to engagement being the opportunity of becoming a Transactor, accessing an instant loan or taking up both.

From this foundation the individual will meander through the zone expressing 'tendencies' as they develop/progress. Key life stages and/or emergencies (get a job, lose a job, have a child etc.) will define critical moments from which whole (financial) futures can be shaped.

Some individuals will remain forever in the zone, unable to reach the relative safety of asset ownership (some form of owner occupation), whilst others will both aspire to and secure this dream. It should also be noted that the move to asset ownership is dynamic and can also involve a return journey (planned or unplanned).

Occasionally, mainstream financial services will 'reach in' and recruit individuals (lowering of a credit score threshold, or entry of a new player into the market). Some individuals will manage a gradual progression outwards as life improves whilst others may even enjoy a quantum leap out of the zone (inheritance or winning the Lottery being two extreme examples of how this might occur).

However, for others this will never truly become possible and the 'overlap' shown in the model will never quite happen (rather there will be a physical separation of the boxes).

9.6 Summary of key points

1	**Partnerships are key**	Financial inclusion services can be expensive. Consider sub-regional partnerships involving other social landlords, local authorities, banks, public sector agencies, community finance provider and advice agencies.
2	**Credit Path framework**	Use the Credit Path and/or the Credit Path 'II' as a framework for an integrated regional or sub-regional partnership. Convene a steering group to develop a plan.
3	**Learn from others**	There are current models developing from which organisations new to the subject matter can learn.
4	**Community Banking Partnership Business Plan**	Secure resources through the partnership steering group to complete a full community banking services business plan to design a delivery programme for a multi-agency partnership.
5	**Implement a Community Banking Partnership (CBP)**	Raise a cocktail of funding through the CBP partnership to deliver the integrated model of financial inclusion services including: Advice, Budgeting, Credit, Deposit development and Education.
6	**Use the G-BIM (Chapter 6)**	To develop an internal case for investment.

Chapter 10

Partnerships: walking the talk – who can help deliver financial inclusion?

10.1 Partnerships – myth or nirvana?

Social landlords have difficult choices in deciding where and how to begin implementing a financial inclusion action plan. There is no panacea as the financial service needs of financially excluded households are diverse and complex making them difficult to deliver effectively.

However, there is a growing range of approaches to consider and many of these are showing positive results. As most social landlords have limited resources, it is important to become familiar with the different pathways that can be pursued before making a decision on which avenue(s) would be most appropriate for the needs of tenants.

As the financial service needs of those on low income often fall into several areas, partnership working is vital, as even the largest social housing landlords might struggle to go it alone.

This section looks at some of the key partnership relationships that might be forged to tackle different, specific aspects of financial exclusion.

10.2 Building partnerships

There are several key components that need to be addressed in developing an effective internal action plan to harness a financial inclusion strategy by changing existing organisational custom and practice. As providers for low-income groups, a major risk for social housing landlords is adopting an approach which results in institutionalising poor people. This risk has been exacerbated by the remoteness and top-down culture of some landlords.

Adopting a financial inclusion strategy underpinned by an action plan can help address this by developing a resident-centred focus based upon a collaborative style of working with householders, front-line staff and other appropriate organisations as partners.

To capture this approach in a clear action plan will drive the delivery of a core set of products and services available to all customers and their households. Many landlords have achieved this by publishing an ‘anti-poverty’ strategy (see 10.4.2 Moat Housing Association). Such a document supports the values and key principles of the landlord and provides the staff team with a clear message about the change of direction and culture required.

With funding from the Royal Bank of Scotland (RBS) Financial Inclusion Innovation Fund, Golden Gates Housing has developed a ‘money matters’ support project for its tenants. It has worked with RBS/NatWest on developing and implementing a financial inclusion strategy for its tenants in Warrington.

One key area of intervention lends assistance to new tenants with benefit take-up, plus some money advice, financial management guidance and savings incentives. The financial inclusion strategy seeks to co-ordinate help in these key areas for existing tenants as well. Other funding has been raised from the DWP to support a project for older tenants including a financial health check service for the over 60s and a pensions education service. Other areas of the financial inclusion strategy under way include co-ordination meetings and joint working with partners including: the local authority, CAB, Age Concern, the Primary Care Trust, local credit unions, the county court user’s group and energy advice organisations seeking to reduce fuel poverty.

10.3 The Farepak debacle – the need to extend banking and budgeting services

The insolvency of Farepak which went into liquidation in October 2006 highlighted how vitally important budgeting facilities backed by banks are for low income households.

Farepak was not the first firm like this to go ‘bust’, but it was the largest to date. Others included the gift company, Red Letter Days and the furniture store, Courts. All had arrangements to take payments in advance for goods to be delivered on a specific future date. The Farepak Christmas hamper scheme had 150,000 customers and lost £50m of the pre-purchase savings made by households.[72] This industry was unregulated and there was no compensation scheme in place.

In August 2007, joint work between the Office of Fair Trading, the Financial Services Authority (FSA) and the private sector led to the announcement of a Christmas Pre-payments Association which will in future oversee the establishment and operation of ring-fenced payments made into scheme accounts.[73] The accounts will be controlled by independent trustees in a manner similar to the way in which National Lottery prize money is protected. In his review for the Treasury, Brian Pomeroy recommended that credit unions should develop innovative ways to provide Christmas savings schemes to attract hard-to reach customers.[74]

10.4 Promoting bank accounts, savings and financial capability

There is considerable scope for social housing landlords to use their substantial negotiating powers when arranging new investment programmes to secure a deal with their chosen banking partner.

This can lead to collaboration on the promotion of Basic Bank Accounts and to other financial inclusion partnership projects as well.

10.4.1 AmicusHorizon Group

For example, AmicusHorizon Group has arranged a syndicated refinancing deal through Barclays for £600m which has been specifically linked to a financial inclusion project.

The project agreed is a two-year pilot with Barclays part-funding two full-time housing officers to provide advice and support as ‘community finance champions’ to promote the take-up of the bank’s basic bank account, the ‘cash card account’. The aim is to assist 3,000

72 Citizen’s Advice (2007) ‘Farepak and the voucher/hamper industry’, Westminster Hall Debate Summary, 9 January 2007.

73 Department for Business Enterprise & Regulatory Reform (2007) ‘Christmas hamper schemes including Farepak – Quick Facts’.

74 Brian Pomeroy (March 2007) *Review of Christmas Savings Schemes for HM Treasury*, Financial Inclusion Task Force.

unbanked tenants to open an account, with housing association staff becoming trained 'Introducers of Basic Bank Accounts'.[75]

10.4.2 Genesis Group

There are many potential obstacles that can slow down or impede the opening of a bank account. These are related to valid forms of identity and money-laundering regulations that the training of 'Introducers' can help address.

'If you don't ask, you don't get'

☑ What is and is not acceptable to open bank accounts often seems like a 'black art'. Did you know that if you ask your bank some of them actually have leaflets detailing this (usually gathering dust at the bottom of a cupboard).

In inner city London, Barclays is seeking to develop this partnership with 'Introducers' further and has been working closely on a path-finding project with Springboard Housing Association, part of the Genesis Group.

This new project builds on work that the association was involved with under the DWP Savings Gateway pilot.

Through this work, the housing association had gained experience in opening up bank accounts for tenants. This experience was reviewed and under its grant-giving programme, Barclays agreed to fund a Financial Inclusion Project with the association in 2006. This was an eleven-month pilot with one financial inclusion officer supported to do financial health checks for tenants.

Under the pilot, 250 tenants were seen and 125 'health checks' carried out and the project is deemed highly successful. The promotion of financial 'health checks' is perceived by the tenants as neutral and non-judgemental; thus it encourages those with debt problems to come forward.

75 Patel, A. (2007) 'Landlord secures inclusion deal', *Inside Housing*, 9 March 2007.

'Not in my back yard?'

The new Money Laundering Regulations 2007 came into force on 15 December 2007.

The Proceeds of Crime Act 2002 and the Terrorism Act 2000 impose obligations on firms and individuals to report suspicions of money laundering or terrorist financing.

10.4.3 Services Against Financial Exclusion

Services Against Financial Exclusion (SAFE) was set up in 2002 as a project of Toynbee Hall, a long-established community development organisation based in Tower Hamlets and operating in the East End of London.

The mission of SAFE is to provide financial education to hard-to-reach groups, to assist in the development of financial capability skills among its service users and to pursue other innovative solutions to financial exclusion.

SAFE was selected by the then Department for Education and Skills (DfES) to pilot the Community Finance and Learning Initiative. It was also selected by the DWP to be one of five pilots to test the Savings Gateway.

SAFE operates as a mobile resource agency. This model for service delivery enables a small organisation to achieve greater reach through partnership working. The hard-to-reach groups it seeks to help include: homeless people, refugees, long-term unemployed people, offenders and ex-offenders. SAFE project workers have tested and developed a methodology for delivering basic money education and support to hard-to-reach groups in opening up a bank account.

The learning from this pilot work has enabled SAFE both to produce a Personal Finance Handbook which it published jointly with Child Poverty Action Group (CPAG) and to develop a system for training other third party organisational staff in the deployment of its successful methods.

As a result of its success, SAFE now operates in many areas of London. The partner organisations it works with provide the venues for the service delivery to the hard-to-reach groups. Success has been achieved with a workshop model held at hostels, day centres and employment projects. The workshops are planned with the host organisation and tailored to the needs of the diverse groups who attend. SAFE both runs the workshops and trains the staff of its partners so that they can run sessions themselves in future and, indeed, work to develop their own financial capability project.

Through this partnership model, SAFE and its network is now opening over 2,500 bank accounts a year for households that otherwise would not be reached.

The work of SAFE has documented a broad range of problems with the design of the Basic Bank Account. It has drawn these problems to the attention of Government, the banking industry, the Financial Services Authority and its member organisations.[76] This advocacy work has led to changes and improvements in the operation and features of the Basic Bank Account. SAFE's advocacy work continues to be a key source of critical information to drive forward positive and practical reforms.

In 2005, SAFE published the results of its work in the report *Banking the Unbanked – a Snapshot.* Working with London Metropolitan University, SAFE has developed an accredited training course in financial education methods for staff in voluntary sector and community-based organisations. With funding from the Royal Bank of Scotland, SAFE established the Financial Inclusion Forum (FIF) which it co-ordinates as an information and support network.

Transact's annual conference is well attended and its strategic objectives are:

(a) to bring cohesion to the financial inclusion sector;

(b) to support excellence among practitioners and to inform financial inclusion policy;

(c) to extend financial inclusion work into other sectors; and

(d) to stimulate new financial inclusion work activity.[77]

The success of FIF has led to the establishment of Transact, the national forum for financial inclusion. Transact is a network of organisations working in the financial inclusion field. Transact chairs the Financial Inclusion and Capability Housing Group which includes, among

76 SAFE (2006) Memorandum submitted by Services Against Financial Exclusion (SAFE), United Kingdom Parliament, Select Committee on HM Treasury, Written Evidence, 16 November 2006.

77 FIF is supported by an Advisory Council which includes RBS Nat West, Barclays, Citizen's Advice, the Community Development Finance Association, IPPR, the National Consumer Council, the Financial Services Research Forum and the Association of British Credit Unions.

others, the National Housing Federation, the Chartered Institute of Housing, the National Federation of ALMOs and the Housing Corporation.

10.4.4 Impact Housing Association

Impact Housing Association operates in both Cumbria and Tyne & Wear. It was involved in the DWP Savings Gateway pilots and the Direct Payment Initiatives pilot for benefit payments into bank accounts.

This experience has been built upon and it has set up a dedicated financial inclusion team of four staff with an operating budget as a cost centre of £250,000 yearly.[78]

The focus is on early intervention work and positive prevention-oriented services.

Housing management staff are trained to provide general advice to tenants on money management. The financial inclusion team has also developed a range of information leaflets for tenants on diverse topic areas of household interest, such as affordable credit, insurance and wills. Impact has also developed a home contents insurance product for its tenants and the Financial Inclusion team can arrange a will writing service for a nominal charge of £10. They have built up effective links with the local bank branches and referrals from Impact lead to instant appointments with bank staff.

As SAFE has done in the south of England, Impact has used its expertise in basic banking services to design training services for other housing associations and other organisations in their regions. Over 200 organisations have been trained by Impact. Those taking up the training are issued a resource support pack and quick reference guide full of relevant information.

10.4.5 Extending basic banking – ABCUL and Street UK

Efforts are currently under way to address the limitations of the standard Basic Bank Accounts.

The Association of British Credit Unions (ABCUL) and the Co-operative Bank have co-developed a credit union current account. As its role in the partnership, the Co-op Bank

78 National Housing Federation (2006) 'Housing Associations tackling Financial Inclusion' case studies.

provides back-office support to enable credit unions to promote and run current account services.

These services include a debit card for shop purchases and the withdrawal of money from cash machines. The account also offers both standing order and direct debit facilities for money management and paying bills. A successful pilot has been run with credit unions in Southwark, Leeds, Hull, Wakefield, Edinburgh and Glasgow. More ABCUL credit unions will be taking up the account in 2009 and the DWP Growth Fund will provide subsidies to assist the expansion of the service.

Street UK, a CDFI based in Birmingham, is the major back office service provider to CDFIs nationally. Barclays Bank and Street UK, have been co-developing Streetpay a bill payment and budgeting account. While not a current account, this product has a number of the key facilities. This product is considerably cheaper for credit unions to take up as a service than the ABCUL current account and has attracted interest from a number of Growth Fund credit unions.

The account will be piloted from Spring 2008 by Community Banking Partnership projects in the Midlands and Mid Wales. If the trials go well it will be extended from early 2009 to credit unions and CDFIs as a service that Street UK will provide back office support for. Community Banking Partnership projects are seeking to integrate this Streetpay account with the Money Advice and Budgeting Services that they have developed.

10.5 Maximising income and welfare rights delivery

With the continued, unabated growth of credit provision, plus record rises in fuel prices and housing costs since 2002, it is not surprising that debt levels in Britain have been increasing in recent years.

The amount households owe is now £1.45 trillion. Citizen's Advice now report handling more than 1.4 million debt cases a year.

As of 31 December 2007, housing repossessions by lenders for mortgage debt rose to 27,100 – a 21 per cent rise on the previous year.[79] In the ten years to 2002, landlord actions in the county courts in England and Wales for rent arrears doubled to 177,991. Since 2002 these actions have

79 Council of Mortgage Lenders (2007) *CML arrears and possession statistics*, February 2008.

dropped back to 144,674 in 2005, but they have been more numerous than mortgage debt cases which increased to 115,353 in 2005.[80]

Fifteen per cent of social housing tenants are behind with their rent at any time. This amounts to over 500,000 people who owe social landlords more than £635m in outstanding rent.[81]

Research in recent years is showing that advice action by social landlords can be just as (if not more) effective in recovering rent arrears as recourse to lawyers and the court system.

The evidence shows that many tenants are simply not receiving their full entitlement to benefits and tax credits. These unclaimed benefits are, in fact, higher than the levels of rent arrears outstanding.

According to the DWP, in 2006 the estimated sums of unclaimed housing benefit ranged annually from £760m to £1,429m.[82] It has been estimated that unclaimed council tax benefit could be in excess of £1.5bn.

An increasing number of social landlords have seen the potential to use in-house tenant support staff and welfare advisers to help those in arrears claim any benefits that they are due. There are many barriers faced by tenants in making successful claims. These include low levels of numeracy and literacy, ignorance of entitlements, the complexity of claim forms, and the work involved in many cases to supply key documents to the DWP or the local authority to support a claim.

Citizen’s Advice has analysed the good practice of 40 registered social landlords and shown the benefits of in-house tenant support staff. Helping tenants claim the benefits they are entitled to makes a major difference, as does the establishment of a working partnership with independent debt advice services for referrals.[83]

80 Department for Constitutional Affairs (2006) Statistics on Mortgage and Landlord Possession Proceedings Issued in the County Courts.

81 ODPM (2003) Housing in England 2001/02.

82 DWP (2006) National Statistics.

83 Citizen’s Advice (2003) *Possession action – the last resort?* CAB evidence on court action by social landlords to recover rent arrears.

10.5.1 Axiom Housing Association

Axiom Housing Association manages some 1,800 properties in Cambridgeshire and Lincolnshire. It appointed an in-house welfare rights adviser in 2004.

To spread awareness and knowledge to colleagues, the new worker extensively trained all housing association staff in welfare and debt advice skills.

Benefits are now checked automatically for all new tenants and the service is also promoted to existing tenants. In the first two years of the welfare rights project, over £500,000 of unclaimed benefits were claimed for tenants.

The direct impact on rent arrears levels and legal costs has been remarkable. Court actions fell from about 30 a month to only 40 a year. Axiom now offers its training service to other housing associations.[84]

10.5.2 Moat Housing Association

Moat introduced an Anti-Poverty Strategy in 2004 and implemented this through a Welfare Benefit Service which operates with one Welfare Rights Officer in each of its three regions.

In the first two years of the service, 1,272 cases were handled by this team and £1.29m of additional benefits claimed.

The officers assist tenants to file claims and make appeals if necessary. The paperwork and the process of a benefit appeal case is exceptionally challenging for anyone without specialist knowledge and skills. Thus the work of the service has proven to be vital to enable income entitlements to be secured. Moat's Welfare Benefit Service has been recognised as a model of good practice – both in terms of its advocacy success but also in its track record in reducing social exclusion.[85]

84 National Housing Federation (2006) op.cit.

85 Ibid.

10.5.3 Housing 21

Housing 21 which specialises in housing older people has had similar success to Moat Housing Association with its in-house Welfare Benefit Managers service. Over the past four years its two project managers have helped residents claim almost £3m in benefits.

This success has relied upon the expert training and consultancy support for front-line housing staff.[86]

10.6 Linking up with money and debt advice agencies

It is important to distinguish between generalist welfare and money advice and specialist debt advice.

Given the scale of the rising debt problems, the DBERR has used the Financial Inclusion Fund to increase the provision of funding for training new specialist debt advisers for the Citizen's Advice network in England and Wales and for other independent money advice agencies also.

Most independent money advice agencies are either members of Advice UK or Citizen's Advice. Both bodies each support about a 1,000 or so local advice agencies in their membership.

Specialist debt advice is geared to provide help to over-indebted[87] households and especially those with high levels of multiple debt. Generalist welfare and money advice staff can provide help with less complex debt situations and, indeed, assist relatively more households per adviser with benefit checks, assistance in making claims and guidance on money management and budgeting.

Often service users will require both sets of services simultaneously.

A partnership with a money and debt advice agency can work especially well when in-house tenant welfare and support services that a social landlord may be providing is matched up with effective referral arrangements with a local CAB or Advice UK member.

86 Ibid.

87 Over-indebtedness describes debt which has become a major burden for the borrower.

10.6.1 Hyde Housing Association

Under its ‘Money Plus’ initiative launched in 2005, Hyde Housing Association has developed a novel partnership approach to tackle rent arrears among a dispersed group of its tenants across Surrey and Sussex. The most cost-effective approach among various options was deemed to be the use of a telephone-based service with an independent money advice agency partner.

With only one adviser in the first year of operation, Money Plus helped 70 residents with debts in excess of £300,000.

Referrals are set up by Hyde housing officers who secure the tenant’s consent for an independent money adviser to telephone them.

10.6.2 Fair Finance

In East London, the Fair Finance ‘Money Matters’ project has been jointly supported by housing associations as an independent debt advice service for its tenants. The consortium of four housing association backers includes: Tower Hamlets Community Housing (THCH), Newlon Housing Trust, Spitalfields Housing Association and Bethnal Green and Victoria Park Housing Association.

With this support, Fair Finance has trained two local residents with generalist advice backgrounds to become specialist debt advisers. The focus of the service is one-to-one debt advice and counselling to assist tenants to manage and reduce their levels of arrears.

The project has assisted over 200 tenants and set up debt repayment plans with a high degree of success. To date, Fair Finance has assisted tenants reduce their non-housing debt levels by over £1m.

The housing associations have drawn on the expertise of Fair Finance to train their housing management staff in money advice basic skills and this has led to close partnership working and a high degree of success in resolving difficult cases as well as in pursuing debt prevention practices.

Fair Finance is also a Community Development Finance Institution that provides micro-business and personal loans. It has worked with its housing association partners to advertise both theses services to tenants and made over 500 loans in its first two years, lending nearly £600,000.

The associations have drawn on the expertise of Fair Finance to train their housing management staff in money advice basic skills and this has led to close partnership working and a high degree of success in resolving difficult cases but also in pursuing debt prevention practices.

Muna Yasin, head of Money Matters at Fair Finance describes its success in this way:

> *I think the key factors on the Money Matters side of the partnership is that the project from the outset took into consideration not just the needs of the clients but also the needs of the housing associations involved. Feedback from us to our partners was one of the main concerns at the outset as many housing front-line staff had bad experiences in the past with referrals to outside agencies; never being able to get the necessary feedback to fully understand a client's situation. Money Matters addresses this by providing monthly email updates on cases and also quarterly meetings between the advisers and each housing association. Also, training given to housing staff at the outset has proved invaluable as many were unaware both about the extent of multiple indebtedness that their tenants are faced with and the debt advice process that each client has to go through to reach a sustainable and realistic budget with which to base any repayment offers on. This has resulted in housing front-line staff becoming more experienced in identifying and referring such cases earlier, thus ensuring that rent arrears do not accrue. It has also meant that housing officers are much more patient with a case referred to us as they are aware of the timescales involved in order to fully assess a client's circumstances.*

Fair Finance is now working to deliver affordable finance to the tenants of the CHANGE partnership, initially in East London (see section 11.5).

10.7 Access to savings and loans – community finance links

Community finance organisations seek to provide higher risk loans and other financial services to meet the consumer and business credit needs that mainstream financial institutions will not fund.

Community finance lenders describe these markets as 'viable but not bankable'.

Nine million consumers are regarded as 'non-standard' and outside the lending compass of the banking industry. One-in-five consumers is denied credit by mainstream financial institutions.

The needs of this so-called, ‘sub-prime’ market are provided for by a diverse range of lenders at a much higher interest rate level. Sub-prime lenders advance over £16bn a year in high cost credit.[88]

Among licensed lenders, Home Credit providers have over 2.3 million customers and advance loans of over £1.5bn with typical interest and credit charge rates of 170 per cent APR or more.

‘Affordable credit: a model that recognises real needs’

Research by the National Consumer Council (NCC) and Policis (2005) has found that households on benefit pay an estimated £140m a year in interest to Home Credit companies.

National Consumer Council (NCC) research has found that low-income household customers of doorstep lenders pay, on average, 11 per cent of their income weekly on interest charges alone. NCC calculated that this amounts to the sum of £129 per month. The research found that 25 per cent of those turned down for Social Fund loans turn to doorstep lenders and unlicensed loan sharks for credit.

The NCC study and other research have found that doorstep lenders are successful because the products and service they provide, despite the huge costs, are packaged in an attractive way.

The popular features of home credit loans include:

- convenience and home visits;
- weekly rather than monthly payment arrangements;
- access to small loans and to cash advances;
- fixed payments with no variable interest rates or fees;
- allowances for missed payments;
- lack of court action to enforce repayments.

88 Palmer, H. and Conaty, P. (2003) *Profiting from Poverty: Why debt is big business in Britain*, London: new economics foundation.

10.8 Types of community finance organisations

There are two major types of community finance organisations – credit unions and Community Development Financial Institutions.

(a) Credit unions are longer established than CDFIs and have operated in Britain since the l970s. There are over 500 nationally and they are regulated by the Financial Services Authority. They provide savings and loan services to approximately 500,000 members. Credit is provided primarily to meet consumer and household borrowing needs.

The savings services are protected by a financial compensation scheme operated by the FSA.

Credit unions can only accept savings from their individual members and they are not allowed to provide deposit services or loans to incorporated bodies.

(b) Community Development Finance Institutions: a handful of CDFIs go back to the 1980s or earlier, but most have developed over the past ten years with support from the Small Business Service's Phoenix Fund.[89]

They are independent, self-regulated financial organisations and affiliated to the Community Development Finance Association[90] as a trade body. There are over 70 CDFIs in the UK. In 2005 they provided £181m of loans and investments to both individuals and to organisations.[91]

Not all CDFIs provide consumer loans. Most, in fact, were funded to focus on business lending to create local jobs and employment.

Community Reinvestment Trusts (CRTs) are a specialised type of CDFI that focus on personal lending to combat financial exclusion. They achieve this mission through consumer lending and some micro-business finance, but also through advice and support services. There are a dozen CRTs operating in England.[92]

89 The Phoenix Fund was set up to encourage entrepreneurship as a means of tackling social exclusion. It was administered by the Small Business Service as part of the Department for Trade & Industry.

90 The Community Development Finance Association is the UK trade association for Community Development Finance Institutions – www.cdfa.org.uk.

91 Community Development Finance Association (2005) *Inside Out 2005 – The State of Community Development Finance.*

92 CRTs include South Coast Moneyline, derbyloans, Fair Finance, Salford Moneyline, East Lancashire Moneyline, Blackpool Moneyline and Moneyline Yorkshire.

10.9 Community banking partnerships

'Hand in hand?'

Community Banking Partnerships

The relationship between credit unions and CDFIs is variable depending upon local circumstances; sometimes sceptical, sometimes fraught with difficulties but also sometimes co-operative and offering the foundations for a Community Banking Partnership.

A relatively new type of community finance organisation which seeks to establish a group structure is a Community Banking Partnership (CBP). This is a hybrid model for tackling financial exclusion that involves a CRT and one or more credit unions and in this way seeks to provide a 'one-stop shop' service. Community Banking Partnerships are flexible and may also seek to incorporate a charitable company to provide money, debt and other generic advice services.

There are seven CBPs operating in Britain in four urban and two rural areas: East London, Southern Hampshire, Coventry & Warwickshire, Devon, South East Merseyside, Sheffield and Mid-Wales.

South Coast Moneyline and Enterprise Credit Union are the lead bodies developing CBPs respectively in Southern Hampshire and South East Merseyside. These two CBPs are among the top six performing lenders under the DWP Growth Fund programme.

10.9.1 South Coast Moneyline (SCML): CBP for Southern Hampshire

The original and pioneering Community Reinvestment Trust, South Coast Moneyline was developed and incubated as a social enterprise project of Portsmouth Housing Association. Founded in 2000, SCML provides both personal and business loans for the residents of Portsmouth, Southampton and Southern Hampshire. These two CBPs are two of the top six performing lenders under the DWP Growth Fund programme.

To date over 10,000 people have been provided advice and 2,400 loans advanced with a total investment of £2.1m.

Credit is provided for a range of household needs including: household goods, rent deposits, property repairs, self-employment and helping people with costs to get back to work. The average personal loan is £610. Seventy-seven per cent of SCML borrowers are on benefit, 34 per cent are lone parents and 23 per cent have County Court Judgements (CCJs).

Over the past year coverage has extended to the South East and South West of England. SCML has developed an additional partnership with Western Challenge Housing Association. It has also had funding support from Southampton City Council Housing Department, Hyde Housing Association, Raglan Housing Association and Swaythling Housing Society.

10.9.2 Enterprise Credit Union: CBP for South East Merseyside

The number of credit unions has been steadily declining in the past five years due to an increasing number of mutually agreed mergers to help create organisations with a stronger base for growth. The larger credit unions emerging from this consolidation process are now better able to work more closely in disadvantaged areas with social housing landlords and other partners to combat financial exclusion.

Founded as the Huyton Credit Union in 1986, growth was slow for the first ten years. But with regeneration funding the credit union has expanded its membership from 500 to over 4,500 during the past ten years.

This credit union now advances over £1m in new loans annually.

In recognition of this success, Huyton won two social enterprise awards for its expanding community investment work on Merseyside and it changed its name to Enterprise Credit Union in 2005.

The credit union has also succeeded in replicating the Money Advice and Budgeting Service (MABS) developed in Ireland. This service provides those in debt with access to money advice, debt repayment services and budgeting and bill payment help from the credit union.

With investment from the DWP Growth Fund, Enterprise has introduced ‘instant loans’ at a higher rate of interest than the standard credit union loan. Demand has far exceeded the amount of capital held for these loans, prompting Enterprise to apply for additional monies to meet the demand.

A recent partnership has been forged with Knowsley Housing Trust. Riverside Group and other housing associations are developing collaborative work with Enterprise Credit Union.

10.10 Access to insurance services – the role of intermediaries

Some one in five households do not have household insurance to protect their possessions in the event of burglary, fire or flood.[93] Those households most likely to be uninsured are the poorest.

Among the 20 per cent of households with the lowest levels of income, 52 per cent are not insured. Among the second poorest quintile, 27 per cent are not insured.[94]

Low-income households are most in need of household insurance because they are the least able to replace goods lost and uninsured households are three times more likely to be burgled than households with insurance.

According to the National Housing Federation, 75 per cent of housing association tenants do not have home contents insurance.[95]

There are many reasons for this including:[96]

(a) apart from pensioners, the insurance industry does not directly market low income households;

(b) the home collection service operated in the past by insurance companies is no longer available (compare this with the home credit market where collection of payment is viewed positively);

(c) households in debt or under financial strain commonly fail to renew their insurance cover;

93 Whyley, C., McCormick, J. and Kempson, E. (1998) *Paying for peace of mind: Access to home contents insurance for low-income households*, Policy Studies Institute.

94 New Policy Institute (2007) ‘No home contents insurance’ information on their Poverty Site at www.poverty.org.uk.

95 Alexander, N. (2007) op.cit.

96 Whyley, et al (1998) op.cit.

(d) mainstream insurance policies are often inappropriate for people on low income and tend to exclude such households by conditions such as high excess payments and minimum sums insured levels.

(e) insurance rates are commonly post code-based and high risk areas, often where low income people live, can cost six times more than areas of low or average risk.[97]

One effective solution to the lack of insurance problem is a house contents product designed and tailored by an intermediary to meet the needs of low-income households at an affordable price.

> The United Nations declared 2005 to be the 'International Year of Micro-credit' in order to underscore the importance of micro-loans in combating poverty. An important complement to these micro-loans is the concept of 'micro-insurance', ie, basic insurance cover against the most important risks is provided against payment of a minimal premium. This cushions people against serious emergencies, against which even savings and loans offer no effective protection. If this type of service is available in the poorest countries on the planet, then why not in the UK? (www.microfinancegateway.org).

The number of such affordable policies available has increased over the past ten years. About one in two local authorities have developed 'insurance with rent' schemes for their tenants.[98] A growing number of housing associations are doing the same. Collection of premiums along with the rent is a good system.

Credit unions also promote affordable polices with flexible payment methods: cash or standing order. Some policies have been designed to allow for the occasional missed payment. To improve the product, conditions set out in policies can additionally be made varied to encompass:

- lower minimum sums insured;
- less home security requirements; and
- either no or limited excess payment charges on claims.

97 New Policy Institute (2007) op.cit.

98 Whyley, et al (1998) op.cit.

Risks are pooled in these schemes which helps bring down the cost and overcome the postcode lottery problem.

Key to the successful take-up of these products is a major marketing push involving the intermediary and the insurer working together on the promotion.

There is a viability challenge though to achieve a balanced insurance pool. Thus, the more the take-up of the policy, the lower the costs can become. Experience is showing that most housing associations on their own will struggle to achieve the target take-up levels needed.

10.10.1 Hereward Housing

Hereward Housing in Cambridgeshire surveyed its tenants and designed an in-house insurance scheme with United Friendly, now AON. Premiums collected with the rent are for 'new for old cover' and charged at £1.15 weekly for every £10,000 insured.[99]

10.10.2 New Charter Housing Trust Group

New Charter Housing Trust Group has developed an 'insurance with rent' policy for its 15,000 tenants with the Norwich Union. Basic cover is for £9,000 (£6,000 for those over 60) and can be extended up to £25,000. Premiums work out at about 19 pence weekly per £1,000 cover.[100]

10.10.3 Northern Housing Consortium

The Northern Housing Consortium includes 30 housing associations. The weekly 'with rent' product developed with Royal and Sun Alliance is 'new for old' cover with no excess charge, no compulsory security requirements for tenants and no 'blighted' postcode areas.

The service provided by the insurer includes a 24-hour helpline, full marketing support to Northern Housing Consortium members, and weekly premium charges fixed for three years.[101]

99 National Housing Federation (2006) op.cit.

100 Ibid.

101 Ibid.

10.10.4 'My Home'

Despite some successes, the experience of many housing associations is that securing high levels of take-up on a 'with rent' product is difficult.

As a result, interest in a national branded product has increased.

In December 2006, the National Housing Federation launched its own affordable home contents product. Called, 'My Home', and designed by Jardine Lloyd Thompson, the hope is that this product can attract widespread social landlord support and, in due course, provide exceptional value to tenants. However, this is not a 'with rent' product. After six months, 1,643 tenants had taken out the policy.

10.11 Summary of key points

1	**Financial inclusion service mapping**	Investigate and map the financial inclusion services in your operational areas. Use the Transact national database to get started.
2	**Basic Bank Account provision**	Talk to your bank and other bank lenders about the financial inclusion work they are involved with. Take note of the limitations of many Basic Bank Accounts. Take advice from SAFE on current best practice for your housing staff to become involve in guidance to tenants and promotion. Seek help from a selected banking partner to make available and promote an improved product to your residents.
3	**Money and debt advice services**	Make contact with social housing organisations that have developed either in-house money advice services or partnerships with local CABx or independent money advice agencies affiliated to Advice UK. Explore and consider ways forward with these advice providers and develop a plan ranging somewhere on the continuum from signposting to in-house provision.
4	**Community finance service links**	Make contact with credit unions and CDFIs in your operational areas. Develop referral systems and consider partnership ways for more targeted provision of their services to your residents.
5	**Developing insurance services**	Contact the National Housing Federation to discuss how to make low-cost household insurance services available to your tenants.

Chapter 11

Which models of financial inclusion partnership have been tested?

As we have now seen, unbanked and under-banked tenants need a range of services to reduce the problems of financial exclusion. Research by Community Finance Solutions has found their needs to include:[102]

11.1 'ABCDE': The spectrum of financial inclusion services

Advice	Money advice, welfare rights and debt advice as linked services.
Banking	Services that allow and enable people to avoid high transactions costs to cash a cheque, obtain discounts for energy and water services (amongst other things), to manage the household budget and pay bills and repay debts in a timely and effective way.
Credit	Affordable loans might be provided from a credit union, a CDFI or even a mainstream lender once a credit history has been established.
Deposit	A safe and convenient place for savings to meet periodic needs due to an unforeseen bill, Christmas, repair problems and expenses for children.
Education	Independent sources of information, training and generic financial advice in relation to decisions about, for instance, the Child Trust Fund, stakeholder pensions and buying a flat or a house.

Diagram 6 outlines these core services and also highlights the potential local partners that social housing landlords can work with to collaborate on delivery in one or more of these product areas.

102 Dayson, K. and Conaty, P. (2005) *Tackling financial exclusion: the case for a Community Banking Partnership*, Community Finance Solutions, the University of Salford.

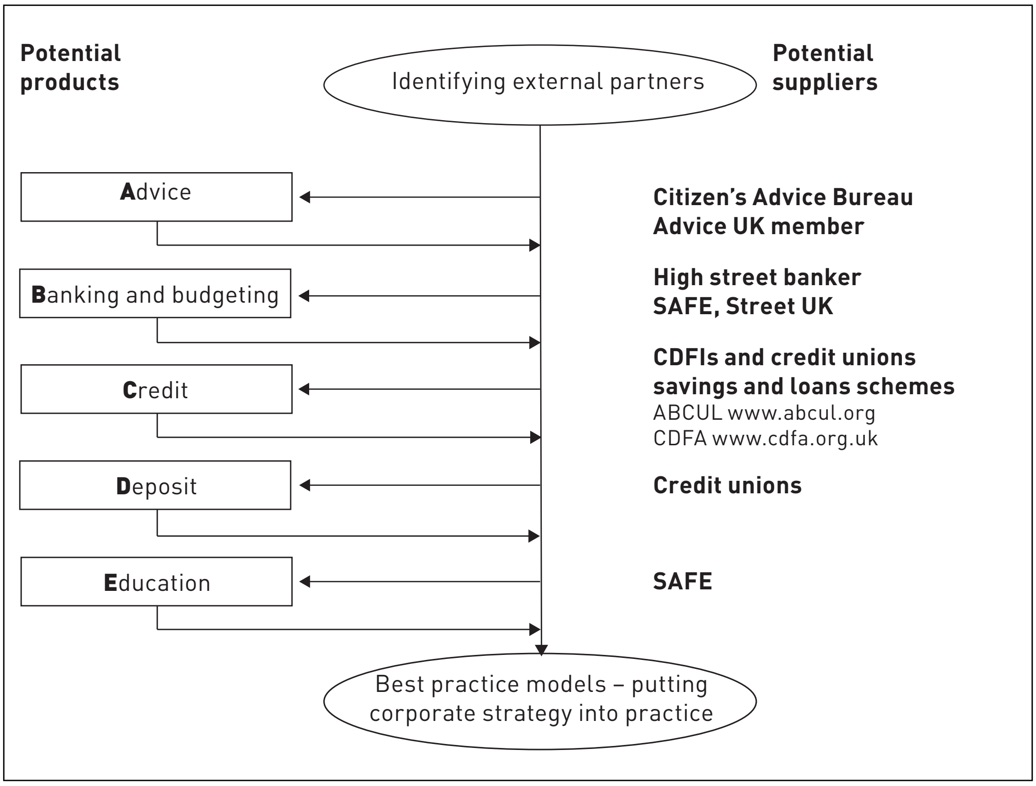
Good practice is now emerging of how such local partnerships can be developed.

There is a growing number of community finance partnerships that have been tested.

- Many are working well but one, the savings and loans model with building societies and banks, has been found to be lacking.
- A second model led by a consortium of housing associations in London, has also found it extremely difficult to provide direct lending services.

To understand the lessons emerging from these experiments, the five main models that have been developed to date need examining one by one.

Diagram 6: Pick and mix – potential products and suppliers



11.2 Birmingham Law Centre – a model for advice services

Birmingham Law Centre (formerly Birmingham Money Advice and Grants) is the largest specialist money advice centre in the West Midlands.

In 1998 Birmingham Money Advice and Grants (BMAG) co-developed a joint project called Maxi with fch Housing and Care (part of the Longhurst Group). The Maxi project was focused on the maximisation of income for tenants and on creative ways and means to tackle debt problems.

fch staff worked closely with BMAG money advisers. The programme was highly successful. The evaluation findings during the pilot period showed that:

- rent arrears accounted for the biggest proportion of tenant debt;
- rent arrears were repaid completely in 8 per cent of cases;
- because repayment arrangements were made, county court possession orders were suspended in 76 per cent of cases;
- legal proceedings were withdrawn or suspended in an additional 8 per cent of cases;
- maximisation of income secured for tenants of more than £100,000 of benefit funds including housing benefit, income support, council tax benefit and disability living allowance.

The success of Maxi led to a complete revision of the fch debt collection procedures and the setting-up of a more sophisticated approach based on a strategy to tackle financial exclusion.

The positive results attracted the interest of many more Birmingham and Solihull social housing landlords: associations that are now all working with Birmingham Law Centre. The other members of the consortium include: Family Housing Association (Birmingham), Mercian Housing Association, Optima Housing Association, Keynote Housing Group (part of Midland Heart) and Solihull Community Housing. Each housing organisation has signed a Service Level Agreement with the Law Centre. The consortium approach achieved through the social landlord collaboration also helps share the costs equitably to pay for a professional service.

The Law Centre also runs a hardship grants programme to help tenants buy furniture and white goods. This programme can assist tenants on referral, including at the new tenancy stage.

11.3 New Horizons Savings and Loans – a model for basic banking plus credit

There are about a half dozen partnerships between building societies and social housing landlords that seek to widen access to both bank accounts and credit facilities. These partnerships seek to provide a better offering then just the Basic Bank Account through the use of a loan guarantee fund. Most importantly, these partnerships seek to provide access to affordable credit.

New Horizons Savings and Loan Scheme was the first housing association and building society partnership. A decade ago, Cambridge Housing Society (CHS) found that there were no affordable finance providers locally for its tenants; so in 1997 it approached Cambridge Building Society (CBS) and the discussions led to a joint venture.

CHS invested £25,000 as a loan guarantee fund with CBS and in return the building society agreed to provide a savings and loan service for CHS tenants from any one of its 21 local branches. The interest rate tenants receive on their savings is the same as for any other CBS customer but, in addition, tenants can access small consumer loans up to £2,000 at the same rate as standard credit union loans (12.67 per cent APR). Targeted products have evolved from the partnership including 'moving-in loans' of up to £165 for new tenants.

Each New Horizon applicant gets a home visit from a money adviser employed by CHS. The adviser checks benefit and tax credit entitlements to ensure that any income due a tenant is claimed. The service has proved popular and loan arrears have been reported to be low and calls on the guarantee fund are rare.

New Horizons now employs six staff involved with community finance and money advice provision. The financial inclusion services on offer to its tenants include:

- basic bank accounts;
- low interest loans and special savings account;
- welfare benefit and tax credit checks;
- home contents insurance;
- money management advice;
- agreement with the fuel supplier EBICo for low cost gas and electricity services.

11.3.1 Kent Reliant Building Society – the Really Useful Save and Borrow Account

Swale Housing Association (part of the AmicusHorizon Group) and the Hyde Group set up a similar partnership to that of New Horizons with the Kent Reliance Building Society. The product developed is called the ‘Really Useful’ Save and Borrow Account.

The account allows members to borrow money after they have saved for three months. Members can borrow up to three times their savings up to a maximum of £1,000 over 24 months.

11.3.2 Darlington Building Society – Helping Hands Savings and Loan Scheme

Inspired by New Horizons, Darlington Building Society has worked with regional housing associations to set up the ‘Helping Hand Savings and Loan Scheme’ to work to combat financial exclusion in the Tees Valley. The housing association partners include: Places for People Group, Endeavour Housing Association, Guinness Trust and Home Housing Association.

Tenants need to save before they can borrow and loans are available at twice the amount saved. Savers get a good interest rate from the Darlington and loans are available at just 1 per cent above the Bank of England Base Rate.

The associations have jointly invested £50,000 with the Darlington which acts as a loan guarantee fund. As with the Kent Reliance partnership, the take up has been slow over a number of years. In 2006 the membership was 214 tenants.

11.3.3 Dunfermline Building Society – Scottish Loan Guarantee

Dunfermline Building Society has set up a similar joint partnership in Scotland with Angus Housing Association, Servite Homes, Sanctuary, Home and Hillcrest Housing Association.

The five associations have jointly deposited funds with Dunfermline Building Society. The corporate deposits provide the loan guarantee and enable tenants to secure from the joint scheme an enhanced interest rate on savings and access to low-cost, small loans ranging from £50 to £500.

A scheme manager has been appointed with costs apportioned among the social landlords. Tenants are encouraged to open an account with the offer of a £1 deposit voucher and a free financial health check.

Caution

One key problem encountered with this 'guarantee fund' product and these partnership accounts has been the requirement for tenants to save in order to qualify for a loan. This seems to have severely restricted take-up levels.

For example, among the 7,500 Hyde Group tenants only 90 'Really Useful' accounts were opened in the first three years of promotion. Niall Alexander has reviewed this product for the National Housing Federation and has found this model to be 'largely unsuccessful'.

By comparison a model using an independent CDFI (ScotCash) as the lender backed by Glasgow Housing Association made 244 loans in the first four months of operation. Alexander also reports that at least two loan guarantee fund schemes have been shelved due to poor take-up.

11.4 Salford Moneyline – a model for affordable credit provision

During the 1990s, many inner city areas saw their local bank branches close. Local groups in the community of Seedley and Langworthy in Salford were concerned about this situation and research was undertaken to find an alternative.

As a way forward, a CDFI was proposed. The project developers had a vision of a community lender that could respond quickly and meet small borrowing needs to help refinance high cost debts, to pay for clothes and other expenses to return to work, to fund small housing repairs and to finance new businesses.

Amongst the founding partners, Manchester Methodists Housing Association could see that many of its tenants with debt problems were trapped in a cycle of predatory credit that was renewed every six months.

The new CDFI, Salford Moneyline (SML) was launched in December 2000 with £1.3m of investment. Other housing association supporters for SML include Contour Housing

Association and Great Places Group. Loan products include a 'Fresh Start Loan' to provide a low-cost alternative to predatory lenders, a 'Getting to Work Loan' and an 'Enterprise Loan'.

Mike Whitnall and Steve Unsted of SML have both helped build the housing association partnerships. They describe the benefits of their services for social housing tenants in this way:

> *The tenants of housing associations (and city council housing stock) are the prime customers of Salford Moneyline for personal loans. It makes sense, therefore, for us to have close links with all the local housing associations and to help them to help their tenants to mitigate the problems associated with financial exclusion. With the move into private sector housing loans, our housing associations partners can also use their skills to help with product design. The best way for a CDFI to build links with housing associations is to focus on the needs of their tenants and work with the management team to offer an attractive lending package for residents. By working in partnership, the CDFI will make better quality loans and the housing associations will secure more financially responsible tenants.*

In its first six years of trading until December 2006, SML lent over £1.93m to 2,596 local people. One-in-two borrowers is dependent on benefit income.

11.5 CHANGE – Model for advice, banking, affordable lending and other financial services

The CHANGE community finance partnership was launched in 2003 by London & Quadrant together with Family Housing Association, Metropolitan Housing Trust, Lloyds TSB and Barclays. This was the first CDFI in Britain to be led by housing associations.

The focus for CHANGE is to reduce the significant levels of financial exclusion experienced by residents. In the first five years the partnership trialled a range of services and products, some were offered direct by CHANGE staff and others through experienced agencies.

The first major initiative was a pan-London project funded by the DWP as part of their Direct Payments programme. This ran between October 2004 and April 2006 with 32 staff employed by the partners across London. The aim was to promote opening a suitable bank account to facilitate the direct payment of state benefits and wider financial inclusion. The choice ultimately was that of the tenant and the adviser's task was to explain the benefits of the full range of options.

In 2006-07 CHANGE piloted an innovative lending service offering personal loans between £50 and £2,500. Staff were employed to assess each lending application at a face-to-face interview. A separate service provided generic money advice and banking support to open and use a Basic Bank Account. The lending initiative was not a success and a recent independent evaluation produced some key learning points:

- developing high volume lending from scratch is tough;
- there is a shortage of skilled and experienced staff;
- need to know the market and respond to customer demand;
- focus on key risks of effective marketing, making good loans and ensuring repayment;
- don't over-govern – the housing association governance structure absorbed significant resources;
- start small and build – the scheme was ambitious and should have started on a smaller scale.

A key recommendation of the report was that CHANGE could usefully focus on working in partnership with experienced CDFIs and credit unions to offer such services in future.

During 2007-08 CHANGE ran a generic advice service targeted at new residents as a preventative approach to help sustain tenancies. A Money Advice pack is issued followed by the completion of a financial health-check and action plan to assist with any money-related issues. CHANGE has been supported by HBOS to fund this work together with front-line staff training.

A Toolkit for Frontline staff to promote financial capability has been produced with funding support from the FSA – *A Guide to Financial Capability for Social Housing Tenants*, which can be downloaded from www.housing.org.uk. This is linked to a day-long training session and follow-up evaluation.

The CHANGE partnership is supported by the G15 Group of largest London associations with a separate Financial Inclusion sub-group being set up to take CHANGE forward. It expects to work with the National Housing Federation and others in the field in future on a more strategic basis.

As it matures, the development of CHANGE shows strong similarities to the Birmingham consortium approach with Birmingham Law Centre. Both had different focal points to begin with, but each consortium has begun to provide a larger range of service once initial success in one area has proven to be achievable.

Between them the CHANGE partners cover around 250,000 households in London and the South East. The housing association partner members have now grown to 10 and include:

- London & Quadrant Group
- Metropolitan Housing Partnership
- AmicusHorizon
- Circle Anglia
- Hyde Group
- Family Mosaic
- Genesis Housing Group
- Wandle Housing Association
- Orbit South
- East Thames Group

The experience that CHANGE has had is not unique. Mercian Housing Association looked into direct provision of a loans scheme but concluded from its investigations that it was unlikely to be approved by its tenants. Research for the National Housing Federation has indicated that research findings have shown that tenants are resistant to the idea of their landlord also being their lender.[103]

'Can't give the money away'

The jury is out on why some landlords succeed in providing direct lending services whilst others do not (Places for People versus CHANGE).

Whilst the National Housing Federation research highlights a valid point, the authors feel the importance of marketing and customer perception is key to cracking this 'nut'. There is a range of options open to the landlord to ensure tenants' perceptions of a lender's independence is not clouded. In particular, see the Southern Housing Group Case Study and the use of financial inclusion strategies and charters.

103 Alexander, N. (2007) op.cit.

11.6 Places for People Group – An in-house branded model

As part of its wider community investment work, Places for People has been involved with a number of community regeneration and community finance-related projects including support for credit unions and CDFIs.

To develop services for its residents, Places for People undertook market research into the financial services needs of its customers. As with similar studies, high cost credit was found to be both prevalent and widespread.

The findings showed that Group customers would save in the region of £1.8m a year in credit charges alone by providing lower cost alternatives.

Based upon the Group's previous experience and the findings of the research, a broad range of options was considered, including access to Basic Bank Accounts, access to affordable credit, financial capability provision, money advice and support for home ownership. It was concluded that there was a need for a multi-faceted approach, which combined partnership working with the development of products delivered directly by the Group and the appointment of a specialist banking partner.

In 2006, the Group entered into partnership with the Co-operative Bank and also established a financial services arm within the Group. To assist this process the Group has utilised its own funds where this has been appropriate. To reduce costs, most of the products are made available by phone.

The service was launched in June 2006. The product range available to Group customers includes:

Personal loans	In the first nine months over 500 loans have been approved with a value of over £500,000 with the average loan being £1,100 with an average repayment term of 22 months.
Business loans	Finance of up to £15,000 is available for new business start-ups or for funding the expansion of an existing business. Advice and support for enterprise is also part of the service
Banking services	Through the Co-operative Bank, customers can open a Basic Bank Account.
Mortgage finance	Again, via the Co-operative Bank. The mortgages are available for outright sale, shared ownership and Social HomeBuy properties.

Whilst in its early stages of development, the combination of an in-house approach aligned with a banking partner and appropriate partnership working methods, appears to meet the Group's requirements.

'Where angels fear to tread': Verdict

It is still too soon to tell if this model could work well for other large national housing associations.

For smaller associations, a combined approach with other partners is more likely to provide a way forward.

11.7 Summary – Financial inclusion partnership models: action points

1	**Identification of financial inclusion delivery model**	Consider and select a financial inclusion delivery model most appropriate to your research findings, action Planning strategy and your operational/financial capacity.
2	**Piloting a financial inclusion delivery model**	elivery models can be expensive and need careful piloting in controlled ways before extending services more broadly. Co-design pilots with third-party partners (eg, money advice agencies, credit unions, CDFIs, banks, the local authority, etc.) and trial the agreed approach and model.
3	**Data capture and evaluation**	Set up a framework to capture key data to measure the success of your financial inclusion delivery model in relation to new services for tenants (and the impact of said services on tenants) and also in relation to cost savings as required to create a strong business case for investment (see Chapter 5).
4	**Refine the model and promote**	From the evaluation of the pilot, refine the model and make necessary adaptations. Test again if necessary or, if largely successful, promote delivery to a wider resident base in an appropriate way.
5	**Expanding service provision**	Subject to an ongoing evaluation of key success factors, consider extensions to the delivery model year-on-year. Pilot test these additions where necessary.

Chapter 12

Other problems and financial inclusion solutions

12.1 Maslow's Hierarchy of Needs

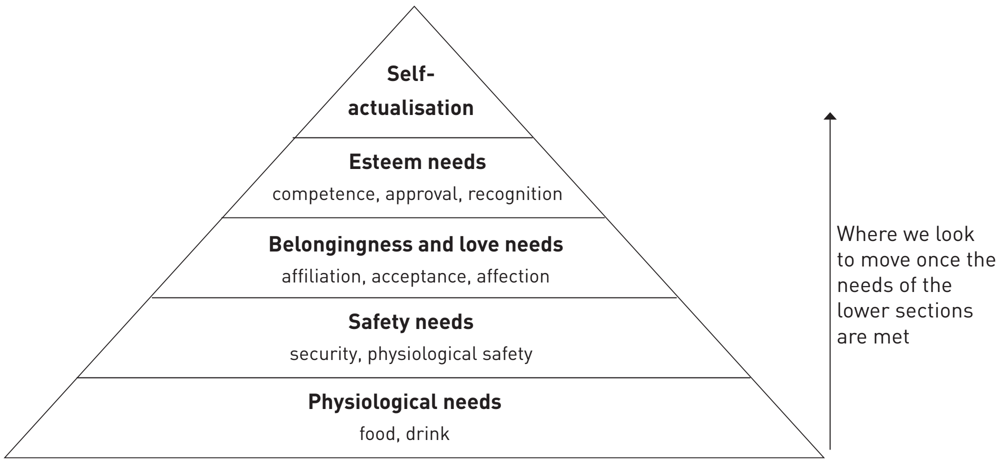
The experience of social housing landlords with financial inclusion practice to date illustrates that the issues faced by low income residents trap them in a vicious circle of poverty. These issues are complex and often interrelated. This chapter looks at some of these wider 'related' factors.

In life we all have options and choices to make; some of us have more than others open to them. Often those 'at the bottom of the ladder' or even 'off the radar' have significantly fewer options and, thereby, fewer choices.

In terms of financial inclusion, everybody has certain choices open to them: to pay the bills or place a bet on the 3.30 pm at Newmarket; to feed the kids today or to buy a couple of lottery tickets and hope to feed them for the rest of the week; to go to the pub and 'drown our sorrows' or save what little cash we have left and use it as a buffer/insurance policy against future problems.

Written-out as here, the solutions seem obvious and simple. They are not. All choices are not created equal.

Abraham Maslow's 'Hierarchy of Needs' argues that we all need certain basics. Namely:



People living in poor, deprived communities are usually preoccupied in the lower parts of the Hierarchy. It is postured that you can only progress up the Hierarchy once the needs on the previous level are met.

The previous chapters have dealt extensively with financial inclusion as a way to maintain and prosper in a tenancy by at least fulfilling the need for shelter in the second tier of the Hierarchy.

The wider dimensions of financial inclusion discussed in the remainder of this chapter also deal with second tier issues. Namely: the dynamic between the factors discussed (energy and furniture), and how they can both affect and be affected by financial inclusion.

12.2 'Power to the people': working with local authorities and energy companies

Fuel poverty has been on the rise with sharp increases in energy prices in recent years. Fuel poor households are those where, due to low income, thermally inefficient housing and the cost of fuel, more than 10 percent of weekly income is required to secure an affordable level of warmth.

In 2004 the number of fuel poor households recorded in England was 1.2 million. Due to the impact of domestic energy price hikes, the number of fuel poor has doubled to 2.4 million in 2007. The large winter prices rises in early 2008 will now push the numbers much higher.[104]

104 National Energy Action (2007) Annual Review 2006-2007.

In addition to improving their housing stock to reduce fuel poverty, social landlords can also help tenants to secure access to lower cost fuel. Tenants without bank accounts cannot obtain the 10 per cent discount generally available to utility customers who pay by direct debit. Tenants in fuel debt also commonly pay through a prepayment meter which is usually the most expensive way to pay for energy use.

12.2.1 Black Country Housing Association and Energyextra

To tackle this problem, in 2000 Black Country Housing Association set up an Energy Services Company (ESCo) in partnership with Dudley Council and a number of local social landlords for their tenants.

Trading as the Black Country Energy Services Club (since re-branded Energyextra), tenants who join are able to secure low-cost energy supplies through a negotiated arrangement with a preferred supplier.

The current deal is regularly monitored to ensure the price agreed remains competitive. Energy Club members also gain access to:

- discounted energy efficient domestic appliances;
- low energy light bulbs and other energy saving measures;
- energy advice assistance.

Richard Baines, the lead developer at Black Country HA, sees a future diversification into direct energy supply to tenants via renewables:

> *Affinity-deal ESCos have been very beneficial and Energyextra is continuing to expand its membership with new [housing associations] joining. In future I expect ESCos to be increasingly involved in generation of electricity and in some cases heat as well.*

The Energy Club has attracted a growing number of additional housing association supporters and with the expansion beyond the Black Country it changed its name to Energyextra. There are now over 23,000 club members and the additional social landlord partner promoters include: Servite Houses, Accord HA, South Staffordshire HA, HomeZone, Family HA (Birmingham), Ashram HA, Caldmore Area HA and Oxford Citizens HA.

12.2.2 Cambridge Housing Society and EBICo Partnership

EBICo provides an easier way for social landlords to gain for their tenants a 'fair price' deal for gas and electricity by consistently offering low prices for low-income households. It achieves this by two means:

(a) prices for fuel do not include a standing charge; and

(b) all EBICo customers pay the same unit price for gas and the same unit price for electricity.

EBICo secures its energy supplies from Scottish and Southern Energy at wholesale rates. Scottish and Southern also provides the billing operation. Unlike commercial suppliers, EBICo has resisted immediate price increases following changes in the price of oil and gas internationally.

Over the past four years it has maintained prices in a steady way with only two price changes while most utilities have changed prices seven times on average and in most cases upward.[105]

Monitoring organisations like the *Ethical Consumer* magazine have found EBICo to be a consistently good deal for low-income customers.

Cambridge Housing Society (CHS) forged a partnership with EBICo in November 2005. To enable all incoming tenants to benefit from lower prices, the housing association, as part of the partnership, switches all gas and electricity supplies in vacant properties over to EBICo services.

With dual fuel supply arrangements from EBICo, CHS has reported savings to tenants of £160 per year.

An additional benefit to any housing association under a similar partnership is that because there are no standing charges, there are no charges at all to pay when properties are empty and no reconnection charges either, unless tenants choose to move to another supplier.

105 Levermore, P. (2007) EBICo Ltd. 'Pricing Statement' from the EBICo Managing Director, 17 August 2007.

12.3 'Flat-pack' financial inclusion: reducing the demand for credit – the role of furniture projects

According to the Department for Work and Pensions, 4 million children in the UK live in households that cannot afford to replace worn out or broken furniture and 3 million children live in households that cannot afford to replace broken electrical goods.

The Furniture Re-use Network (FRN) is the national organisation for 400 charitable bodies and social enterprises in England and Wales that are seeking to supply low income households with the furniture and white goods they need at affordable prices. Many of these organisations also provide training and workplace opportunities for unemployed people.

This growing social enterprise sector currently employs over 3,000 paid staff, supports 10,000 volunteers and provides over 8,000 training places.[106]

Members of FRN reuse and find a new home for over 2.5 million household goods, repair and recycle over 250,000 domestic appliances and divert 90,000 tonnes of waste from landfill.

12.3.1 Furniture Resource Centre (FRC)

Some FRN members are involved in the full supply chain of furniture-related activity. For example, the Furniture Resource Centre (FRC) in Liverpool includes the following separate social business operations in the FRC Group:

- One Stop: both manufactures furniture and provides it to low income households;
- Bulky Bob's: manages waste and repairs and recycles goods;
- A Moving Experience: provides removal services to low income households;
- Revive: operates retail outlets for furniture, other household goods and appliances generated by the social business.[107]

FRC provides furnished-tenancy supply services to a growing number of local authorities and housing associations. The benefits to landlords from furnished-tenancies include:

106 Data from Furniture Reuse Network website at www.frn.org.uk.

107 Sources: Furniture Resource Centre website at www.the-cats-pyjamas.com/frc.index.asp and Upstart Awards, Furniture Resource Centre at www.newstatesman.com/upstarts

(a) reduction of costs of keeping property empty as experience shows that 12 weeks of lost rent due to voids can repay the cost of investment in essential furnishings;

(b) hard to let properties are made more attractive;

(c) furnished accommodation increases the average length of tenancies;

(d) re-letting property is speeded up and rent arrears are less.

'Putting 2 and 2 together'

☑ Cross-reference this chapter with the business case for investment in Chapter 6 for some interesting overlaps.

Credit union records show that about one in four loans are for household goods, whilst much of the take-up of doorstep lending is frequently for furniture and household goods.

The National Housing Federation established a partnership with the Furniture Re-use Network in December 2006. There are now a growing number of local partnerships developing between housing associations and FRN members. 'The Neighbourhood Furniture Store' has become a flagship project of the AmicusHorizon Group. The service seeks to provide 6,000 households a year with furniture and white goods.[108]

A similar charitable trading arm of West Kent Housing Association, the Furniture Store, provides its tenants with furniture and white goods at half the cost price. Through its discounts, the service seeks to prevent recourse to high cost lenders. A fridge from the Furniture Store costs about £40 and a washing machine around £100. The service helps about 1,000 households a year and collects about 78 tonnes of goods.

108 National Housing Federation (2006) 'Housing Associations Tackling Financial Exclusion' case studies.

12.4 Summary of key points

1	**Basic needs versus 'higher needs' (Maslow)**	Remember financial inclusion impacts at both levels.
2	**'Think outside the box'**	Fuel poverty is important at time of unrest in international energy markets. Make contact with EBICo and Energyextra and consider how to develop low-cost energy supply and efficiency packages for your tenants.
3	**'Build a box'**	People generally aspire to 'do well'. Access to facilities such as affordable furniture means they develop a pride from which a good tenancy and community cohesion can be developed. See *Win-win*, joint publication on good practice by the National Housing Federation and the Furniture Re-use Network, www.housing.org.uk.
4	**Build the benefits from these wider dimensions of financial inclusion into your G-BIM**	Quantify every benefit – to the individual and the organisation.

Chapter 13

Conclusions – Checklist for action

The social and community case for action and investment is overwhelming. Assisting tenants into financial inclusion helps in the following ways:

(a) **Affordable credit**: means that tenants spend less of their money servicing debts;

(b) **Good quality money advice**: provides help in sorting out debts and arrears, as well as clarifying priorities for payments and maximises benefit uptake;

(c) **Savings and insurance**: provide households with some protection from shocks such as unexpected expenditure or loss through fire or flood;

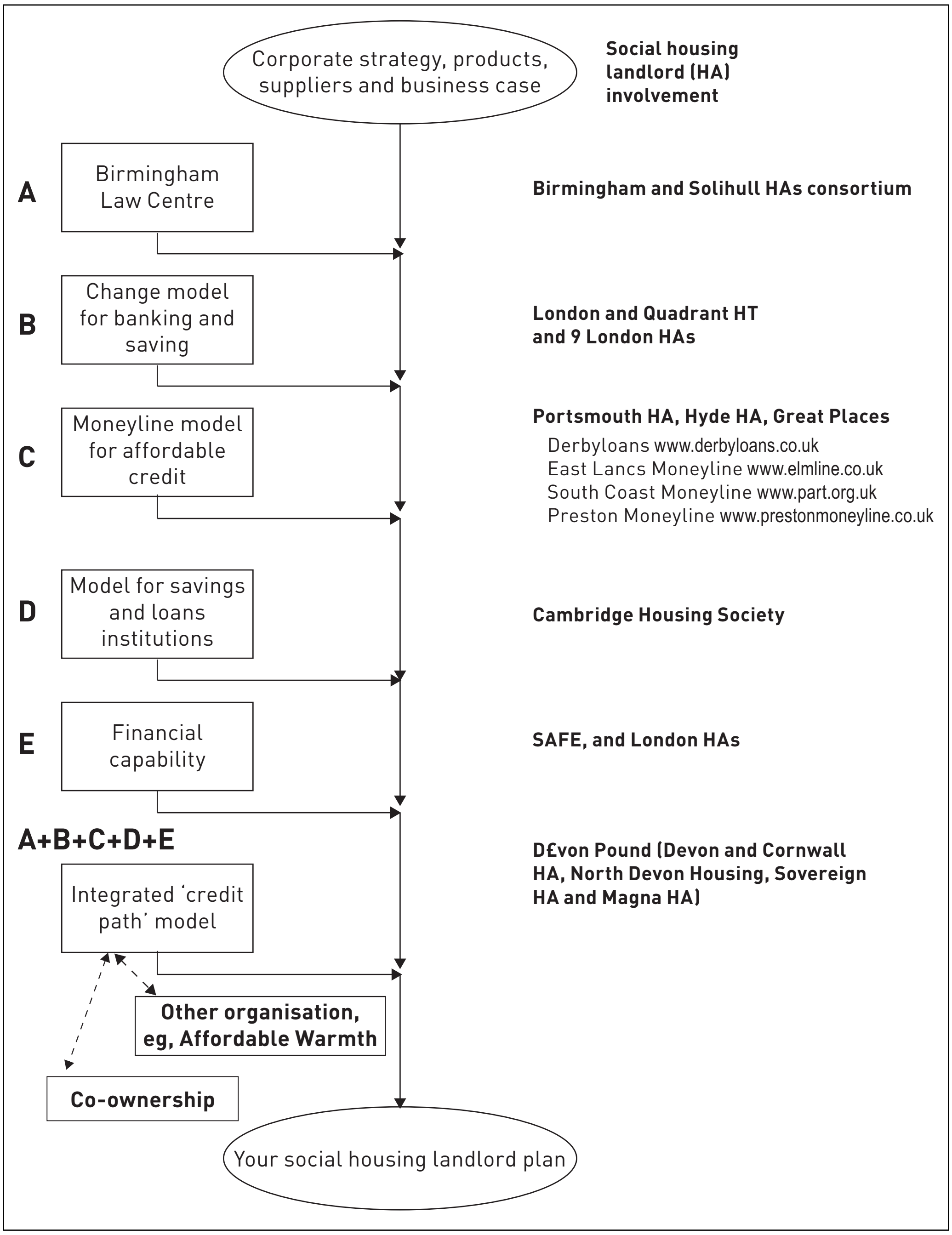
(d) **Banking provision**: the effective take-up and use of banking services means that people's money is safe and not kept under a mattress.

In general, financial inclusion measures increase personal income, decrease personal debt and offer the opportunity for personal advancement. Their take-up also contributes to household well-being (by whichever definition you choose to accept). Communities benefit from the success of financial inclusion projects, often leading also to a lower resident churn and stronger social cohesion.

However, it is the financial case for financial inclusion action that is often paramount for social housing landlords, because if such action is managed and implemented effectively, it can work constantly to reduce rent arrears and to avoid the high costs and income lost through evictions and empty property. Cutting the cost of staff time spent dealing with these issues and the legal costs incurred is another senior management priority. Hopefully, this guide will convince those that need convincing that the business case for action and investment is as compelling as the social and community case.

Financial inclusion work is challenging to say the least. However, over the past ten years, a growing number of social landlords have become involved and newcomers to this work can learn enormously from the successes (and failures) of this cohort. The case studies we have examined clearly show what can be achieved with the right strategy, motivation and action plan. Diagram 7 below provides a summary of some of the success to date in exemplary areas of partnership where housing associations have played a key role.

Diagram 7: Models implementing best practice in your social housing landlord plan



There are key tools for structuring partnership working. There are also restrictions on social landlords from a regulatory standpoint that need to be considered carefully. These need to be taken into account in the implementation of the organisation's financial inclusion strategy and financial inclusion action plan.

The diagrams and case studies provide guidance on how to develop a financial inclusion strategy, to move first to mobilise resources and then to begin to implement a financial inclusion action plan for tenants (and other residents) in local communities. There are, though, key issues and lessons that should be borne in mind to help maximise the chances for success.

These pointers can assist as a Checklist for action:

1	**Double bottom-line appraisal**	Financial inclusion action makes sense both as a service to tenants and in business terms, saving costs and improving performance. The service case should be investigated in terms of tenants' needs and the business case in terms of additional income generated for tenants as well potential cost savings appraised using the General Business Intervention Model for guidance.
2	**Look to the local**	Numerous local organisations are already providing services that are helping partially to reduce financial exclusion. Local mapping work should be conducted to see what existing provision there is in the form of welfare rights, money advice, debt advice, credit unions and other community financial services, as well as mainstream provision from banks and others involved with financial education. Such providers are likely to be willing to help and indeed to respond positively to a potential partnership opportunity.
3	**Research the options and develop a strategy**	From the mapping work, the tenant's needs assessment and the business case appraisal, develop an organisation-wide strategy which also sets out options and guidance for an action plan.
4	**Share solutions with peers**	Going it alone is fraught with problems. Solutions to financial exclusion are complex and sometimes costly to develop. Partnerships are crucial to success and other social housing organisations may have encountered the same problems, so opportunities should be found to share experiences and explore areas for collaboration and co-investment.

5	**Maximise and stabilise income for tenants**	The tragic aspect is that research has shown that unclaimed benefits are a significant cause of deprivation and a major underlying cause of tenant debt problems. As key components of the business case for intervention, effective rent arrears prevention and management needs to ensure that tenants are claiming all the tax credits and benefits to which they are entitled. The G-BIM shows that in-house specialist staff can often more than pay their own way and reduce rent arrears significantly by effectively promoting and supporting tenant take-up of unclaimed benefits.
6	**The ABCDE of financial inclusion**	The core financial inclusion services needed by tenants include access to: • money and debt advice; • banking services including bill payment; • affordable credit. These provide a good focus for developing an initial financial inclusion action plan and in considering how to establish a basic partnership. But the latest research shows that other services are vitally important, including: • deposits; • education; • (and household insurance). The priorities for action should be based upon your financial inclusion survey work. This should indicate which services to concentrate on providing initially.
7	**Provide access to insurance**	One in two households on low income are uninsured. There is a growing range of low-cost insurance with rent schemes that social housing landlords have introduced. If you have not taken action in this area already, consult other social housing landlords or the National Housing Federation for guidance on a model scheme to provide to your own tenants.

8	**New tenancy action**	The (pre-)lettings stage is a key time for any financial inclusion action to be offered. It provides an ideal opportunity to make available to a new tenant a financial health check, a Basic Bank Account, a credit union account and a possible loan (through a partner) for moving in expenses and furnishings. Developing a package of services for new tenants that aims to prevent debt problems occurring provides a good focus to shape your financial inclusion action plan.
9	**Co-deliver advice**	Money and debt advice delivery can benefit from both a generalist and a specialist approach. ● Generalists advisers can work well in-house to provide a 'money advice light' service aimed at benefit take-up, budgeting advice, generic money advice and rent arrears liaison. ● For complex cases this needs to be backed up by referral mechanisms to specialist money advisers. A strong complementary system focusing on both prevention and cure can be co-developed with your local CAB or other independent money advice agency.
10	**Support the community finance sector**	The credit union and CDFI sector is growing in experience, skill and capacity. Social landlords have benefited from close working partnerships with the sector and this is an area where it is vital to establish close partnerships. credit unions and CDFIs are often complementary (even if they do not always recognise or acknowledge this). Credit unions offer savings facilities and CDFIs are best placed to provide enterprise loans, some riskier forms of credit (such as loans above the credit unions' interest rate ceiling) and larger home improvement loans. Where a CDFI does not exist, there is an opportunity for social landlords to help establish one and to shape an agenda to fill financial services gaps to meet tenant needs that local credit unions and banks cannot readily fill. Sponsor local credit unions and set up payment deduction facilities and office collection points to enable tenants and staff to join. Invest share capital in your local CDFI to provide 'seed corn' finance for lending and to help attract other social investors.

11	**Use and leverage your investment clout**	The social housing sector is a huge area of business for banks. Relatively high levels of rent arrears can affect the credit rating of social landlords adversely, thereby increasing borrowing costs. On the other hand, as major corporate customers of banks, social landlords can use this relationship to seek to engage their bank(s) to help solve financial exclusion problems for their tenants. There is ample scope for social landlords to develop a creative dialogue with their bank, and it is possible to secure tailored provision of improved Basic Bank Accounts and to set up a dynamic partnership with a bank. Consider how a Community Bank Account might be developed with your local credit union or CDFI partners. Contact the National Association of Credit Union Workers for information at www.nacuw.org.uk. A number of housing associations have shown how it is possible to get banks to assist in creative ways to make financial inclusion action plans work.
12	**Tackle fuel poverty (and consider water poverty)**	Rising utility costs have led to growing levels of fuel poverty. Tenants without bank accounts pay more for fuel and water charges as they have no access to direct debit discounts. To make matters worse, tenants with prepayment energy meters pay extra charges. The growth in charges for water through metering the use of water supply is also contributing to higher bills for low-income households. With climate change, this payment system will become increasingly common. Promoting basic bank accounts can help, but negotiating a special rate with a preferred utility supplier can lead to partnership opportunities including collaboration on energy efficiency improvements and cost-saving energy appliances for tenants. Consider a partnership with EBICo, the non-profit energy supplier or with another supplier. Once again, look locally for energy advice providers in the voluntary sector that may be open to working in partnership with social housing landlords to develop an Energy Club. Similar opportunities of partnership with water companies are potentially possible.

Chapter 14

Glossary of terms

ABC (of financial inclusion)	Advice, Banking, Credit
ABCDE (of financial inclusion)	Advice, Banking, Credit, Deposit (Savings) and Education
Action research	An informal, qualitative, interpretive, reflective and experimental methodology that requires all the participants to be collaborative researchers. Action research is carried out by people who usually recognise a problem or limitation in their workplace or community and, together, devise a plan to counteract the problem, implement the plan, observe what happens, reflect on these outcomes, revise the plan, implement it, reflect, revise and so on.
Advice UK	The UK's largest support network for free, independent advice centres. Advice UK was formed in 1979 as the Federation of Independent Advice Centres (FIAC).
APR	Refers to the annual percentage rate of charge which is determined by a formula under the Consumer Credit (Total Charge for Credit, Agreements and Advertisements) (Amendment) Regulations 1999 (SI 1999 No. 3177). This formula seeks to capture the total cost for credit. The APR thus allows the cost of one credit product to be compared with another. The calculation includes interest charges

	and service charges plus other fees required to enter into the contract.
Association of British Credit Unions (ABCUL)	Is the country's largest development, information and training network in the UK for new and existing credit unions.
Association of British Insurers (ABI)	Represents the collective interests of the UK's insurance industry. The Association speaks out on issues of common interest; helps to inform and participate in debates on public policy issues; and also acts as an advocate for high standards of customer service in the insurance industry. The Association has around 400 companies in membership. Between them, they provide 94 per cent of domestic insurance services sold in the UK.
ATM (Automated Teller Machine)	Cash machine.
Bank	An organisation which accepts deposits, makes loans, pays cheques, and performs related services.
Banking Code	A voluntary code which sets standards of good banking practice for banks and building societies to follow when they are dealing with personal and small business customers in the United Kingdom.
Banking Code of Standards Board (BCSB)	An independent body responsible for monitoring compliance with the Banking Code. The mission of the BCSB is to ensure that the Banking Code and the Business Banking Code deliver their promises of fair dealing and standards of good banking practice to the customers of UK banks and building societies. The BCSB is sponsored by the British Bankers Association (BBA), the Building Societies Association (BSA) and the Association for Payment Clearing Services (APACS).
Basic Bank Accounts	A bank account without a cheque book but an ATM (cash) card for cash in and cash out withdrawals. The account offers free direct debit and standing order features for paying bills. The account does not offer an overdraft facility or any access to credit. Service

provision is provided by major banks and through the Post Office network.

British Bankers Association (BBA)
The leading UK banking and financial services trade association, which acts on behalf of its members on domestic and international issues. It has 225 banking members from 60 different countries who operate some 130 million accounts, contribute £50bn to the economy and together make up the worlds largest international banking centre.

Buffer zone
A small penalty-free zone (value of overdraft) to guard against unpaid direct debits etc., that recognises and fits with the (weekly) budgeting cycle.

Capacity building (activity)
The United Nations defines 'capacity building' as the creation of an enabling environment with appropriate policy and legal frameworks, institutional development, including community participation (of women in particular), human resources development and strengthening of managerial systems.

It is a long-term, continuing process, in which all stakeholders participate.

Cheque cashers
The British Cheque Cashers Association describes the services provided by its members as follows:

BCCA members offer members of the public the ability to cash cheques payable to themselves on the spot. A fee is charged for the service which is clearly displayed at the members' premises. The cost of cashing a typical cheque of less than £300 is usually less than the 'special presentation' charge made by most high street banks. Identification checks, typical of those made by banks are made for new customers.

Whether the claims in respect of charges holds true would need to be reviewed on a case-by-case basis whilst, for those without access to any kind of bank account, the claim is irrelevant.

Child Poverty Action Group (CPAG)	The leading charity campaigning for the abolition of child poverty in the UK and for a better deal for low-income families and children.
Child Trust Fund (CTF)	A savings and investment account for children. Children born on or after 1 September 2002 will receive a £250 voucher to start their account. The account belongs to the child and cannot be touched until they turn 18, so that children have some money behind them to start their adult life.
Citizen's Advice Bureau (CAB)	The Citizen's Advice service helps people resolve their legal, money and other problems by providing free information and advice from over 3,000 locations, and by influencing policymakers.
Community Development Credit Union (CDCU)	A specialised form of credit union developed in the USA with a mission to serve low and moderate income households in underserved markets.
Community Development Finance Association (cdfa)	The cdfa is the UK trade association for Community Development Finance Institutions. The cdfa's mission is to support the development of a thriving and sustainable CDFI sector that provides finance for disadvantaged and underserved communities and, as a consequence, contribute to the increasing prosperity of these communities.
Community Banking Partnership (CBP)	This model aims to bring together the best practices of both credit unions and Community Reinvestment Trusts to create a range of financial services for financially excluded people.
Community Development Financial Institutions (CDFIs)	These are unregulated lending providers which have been supported by the Government to provide credit and other support services to address market gaps not being met by banks, building societies and other mainstream credit providers. Most CDFIs provide business finance for small businesses and social enterprises. Some also provide consumer loans and other forms of micro-credit to self-employed people.

Community Reinvestment Trust (CRT) A specialised form of CDFI that seeks to combat financial exclusion. These organisations provide a diverse range of micro-loans ranging from £250 to £5,000 to meet consumer, housing and self-employment needs. Many CRTs trade as ‘Moneylines’ as in Salford Moneyline and East Lancashire Moneyline. These CDFIs also use a group structure involving an investment company, normally registered as an Industrial and Provident Society ‘for community benefit’, and a charity, normally registered as a company limited by guarantee.

Company Limited by Guarantee A non-profit company without share capital, which has members who are guarantors rather than shareholders. Limitation of liability takes the form of a guarantee from the members to pay a nominal sum, typically only £1, in the event of the company being wound up. This is a legal structure used by many CDFIs and if tackling financial exclusion, the company directors may additionally seek to register the organisation as a charity.

Consumer Credit Act (CCA) The Consumer Credit Act 1974 regulates consumer credit and consumer hire agreements for amounts up to £25,000. Its protections apply to agreements between traders and individuals, sole traders, partnerships and unincorporated associations, but not agreements made between traders and corporate bodies such as limited companies. The Consumer Credit Act 2006 establishes a fairer, clearer and more competitive market for consumer credit, updating consumer credit legislation and making it more relevant to today’s consumers.

Council of Mortgage Lenders (CML) The trade association for the mortgage lending industry. Its members account for around 98 per cent of UK residential mortgage lending.

Council Tax A tax falling within local taxes for any occupant of a dwelling as of 1 January of the year in question, whether he or she is the owner or the tenant, whether free of charge or against payment.

County Court Judgement (CCJ) The term for a judgement made against a person or company for debt in the county court. Generally, if a CCJ is paid in full within 30 days of the date of the judgement it won't appear in the credit register. CCJs are a matter of public record. They are catalogued and held for six years with the Registry Trust. If a judgement is settled after the 30-day period it will be entered into public record and this will generally affect the credit rating of the person against whom the judgement was made.

Credit impaired With a poor credit rating.. It results in a reduction of the credit offered by lenders.

Credit Path An innovative approach to delivering the core financial inclusion services of bill payment and budgeting, credit, savings and asset-development. This approach has operated successfully in the USA for ten years and is being developed in Britain by Community Banking Partnerships.

Credit unions These are financial co-operative organisations governed by the Credit Unions Act 1979. As financial institutions they are regulated by the Financial Services Authority and this regulator also needs to agree their registration. To register, a proposing group must demonstrate a common bond of members based upon a shared employer, shared association (eg, religious organisation or trades union) or a shared geographical community of residence and/or employment. Credit unions can provide a range of financial services including savings facilities, loans and bill payment accounts. Deposits in credit unions are covered by FSA compensation schemes in a similar way to the deposits in banks and building societies.

Debt on our Doorstep (DooD) A national campaigning organisation made up of local activists and public organisations. It aims to end extortionate lending and ensure universal access to affordable credit and other financial services.. It was the first organisation in the UK to call for a 'responsible lending' duty to be placed on lenders, and this has since been introduced into the Consumer Credit Act 2006.

Decent Homes Standard Communities and Local Government standard which states that a home must be warm, weatherproof and have reasonably modern facilities in order to be classed as 'decent'

Department for Children, Schools and Families (DCSF) Recently renamed as the Department for Children, Schools and Families, it leads work across Government to ensure that all children and young people:

- stay healthy and safe;
- secure an excellent education and the highest possible standards of achievement;
- enjoy their childhood;
- make a positive contribution to society and the economy;
- have lives full of opportunity, free from the effects of poverty.

Department for Business, Enterprise and Regulatory Reform (DBERR) Recently renamed as the Department for Business, Enterprise and Regulatory Reform. It brings together functions from the former Department of Trade and Industry, including responsibilities for productivity, business relations, energy, competition and consumers, with the Better Regulation Executive (BRE), previously part of the Cabinet Office.

Direct debit Instruction from a customer to their bank or building society authorising an organisation to collect money from their account, as long as the customer has been given advance notice of the collection amounts and dates.

Direct Debit Guarantee A guarantee offered by all banks and building societies that take part in the Direct Debit Scheme.

- If the amounts to be paid or the payment dates change, the organisation collecting the payment will notify the customer, normally 10 working days in advance of their account being debited, or as otherwise agreed.
- If an error is made by the organisation or your bank or building society, you are guaranteed a full and immediate refund from your branch of the amount paid.
- You can cancel a direct debit at any time by contacting your bank or building society. We also recommend you notify the organisation concerned.

Doorstep lenders Also known as home creditors, these are licensed moneylenders providing small consumer loans on a weekly basis over short term periods, ranging from 13 to 52 weeks. The credit charge includes the cost of weekly or fortnightly collection and APRs are typically over 150 per cent.

Economically inactive These are people who are not in work, but who do not satisfy all the criteria for International Labour Organisation (ILO) unemployment (wanting a job, seeking in the last four weeks and available to start in the next two), such as those in retirement and those who are not actively seeking work.

Employment Bond A bond, valued from upwards of £100, is bought by organisations, businesses and individuals to support a specific project, allowing them to take a stake in improving the lives of people in their own areas. At the end of five years this money is returned to the investor. The bond is held under trust and investors have a bank guaranteed return of their investment. However during the five years the interest on the bond is used to support important projects.To get the money to work it is lent to not-for-profit developers that invest it to build or renovate properties for community benefit. The fixed-term loan is then paid back with compound interest, which enables repayment of all the original investments that private individuals and businesses have made. The balance of money from the bonds is used to fund local projects confronting unemployment, exclusion, skills training and crime.

Financial capability Means being able to manage money, keep track of your finances, plan ahead, choose financial products and stay informed about financial matters.

Financial Capability Innovation Fund Launched by the Financial Services Authority in June 2005. It provides grants to encourage innovative projects run by voluntary organisations to help people become more financially capable.

Financial exclusion Refers to households, mainly on low income, that cannot access conventional financial services at affordable rates. These households typically pay more for credit and money transmission but also

	commonly have little or no savings and in most cases lack home contents insurance.
Financial Inclusion Fund	The Government's first financial inclusion strategy, Promoting financial inclusion, was published in December 2004. This announced the creation of a dedicated Financial Inclusion Fund of £120m for the 2004-07 spending period aimed at developing: ● prioritised access to banking, affordable credit and free face-to-face money advice; and it also ● established an independent Financial Inclusion Taskforce to advise the Government and monitor progress (see below).
Financial Inclusion Task Force	The Financial Inclusion Taskforce was formally launched on 21 February 2005. It monitors progress on the objectives the Government has set out with regards to the Financial Inclusion Fund and will make recommendations on what more needs to be done.
Financial literacy	Some of the many definitions include: ● an understanding of the key concepts central to money management; ● aptitudes that allow effective and responsible management of financial affairs.
Financial Services Authority (FSA)	The FSA is both the registrar and the regulator of most financial services providers where savings, deposits or investments are made. This includes banks, building societies and credit unions as well as investment funds and stock market related institutions.
Financial Services Skills Council (FSSC)	The FSSC is licensed by the UK Government to work in partnership with employers to provide strategic and responsible leadership for training, education and development for the financial services industry in the UK.
Fuel poverty	Is where a combination of poor housing conditions and low-income mean that the household cannot afford sufficient warmth for health and comfort. The widely accepted definition of fuel poverty is where a household needs to spend 10 per cent or more of income to meet fuel costs.

Furniture Re-use Network (FRN)	The national organisation for 400 charitable bodies and social enterprises in the UK that are seeking to supply low income households with the furniture and white goods they need at affordable prices. Many of these organisations also provide training and workplace opportunities for unemployed people.
General Business Intervention Model (G-BIM)	The G-BIM is a transparent and quantifiable cost/benefit analysis of a housing association's financial inclusion service in purely monetary terms, albeit that it also helps quantify other more qualitative outputs and outcomes. By providing this cost/benefit framework the G-BIM can be used to help develop new financial inclusion interventions, evaluate existing ones and help shape future service development and delivery. The G-BIM also provides a platform for the adoption and integration of the financial inclusion service into the housing association's mainstream work, standing shoulder-to-shoulder with housing management and arrears management.
Generic Financial Advice	new and independent form of financial education and generalist advice provision that seeks to improve financial services understanding, money management skills and financial capability for households. The Government is developing a strategy to promote this form of independent advice from 2008 onwards.
Growth Fund	The Chancellor's Pre-Budget Report, published in December 2004, outlined measures to promote financial inclusion, one of which was to set up a Growth Fund of £36m to increase the availability of affordable personal loans via third sector (not-for-profit) lenders such as credit unions and CDFIs. It is administered by the Department for Work and Pensions.
HomeBuy	Government intermediate housing scheme under which existing and potential social rented tenants, key workers (under Key Worker Living) and others can purchase a home on the open market with an equity loan. Includes proposals to allow social rented tenants to buy a share in their 'rented' home and move up to full ownership as they feel ready.

Home credit We would define the market as one offering small loans (£100-500) for short periods (six months to one year) and collecting repayments from customers' homes.

Housing associations Common term for the 2,000 or so independent, not-for-profit organisations registered with, and regulated by, the Housing Corporation. Housing Associations are able to bid for funding from the Housing Corporation.

Housing benefit Sometimes called rent allowance, this is, is paid by a local council to help people pay their rent. Recipients might be:

- a tenant of the council;
- a tenant of a housing association;
- a tenant of a private landlord; or
- a shared owner (but you can only claim for the rent or occupancy payments).

Housing benefit cannot be used to pay a mortgage. It can cover:

- rent;
- some service charges, such as upkeep of communal areas or a caretaker.

It cannot cover:

- charges for heating, hot water, lighting, or cooking;
- payments for any food or meals provided; or
- charges for care and support

A tenant may be able to claim housing benefit if he or she:

- has a low income; or
- is receiving welfare benefits.

Illegal moneylenders These are unlicensed and operate outside the Consumer Credit Act 1972. They are commonly referred to as 'loan sharks'. These loan sharks not only take advantage of vulnerable lenders but also bring disrepute to legitimate lenders. Under the 'Illegal Lending Enforcement Pilot Project' the Department for Trade & Industry funded regional teams in Glasgow and Birmingham to investigate the impact of strong enforcement against illegal moneylenders. On 25 January 2007, the Government announced its intention to extend the illegal money lending pilot project to all regions of England, Scotland and Wales.

Industrial and Provident Society (IPS) This is a limited company seeking to operate either as a co-operative or as a business for the benefit of the community. The latter are also known as 'Bencom' societies and include many housing associations and a number of CDFIs. IPS organisations need to secure registration through the Mutual section of the Financial Services Authority. Registration is covered by the Industrial and Provident Societies Act 1965.

Insolvency Service In terms of the subject matter at hand, it administers and investigates the affairs of bankrupts, of companies and partnerships wound up by the court, and establishes why they became insolvent. The Service acts as trustee/liquidator where no private sector insolvency practitioner is appointed.

Insurance A service that offers (generally financial) compensation for something that may or may not happen.

Intermediate housing Housing at prices and rents above those of social rent, but below market price or rents. These can include shared equity products (eg, HomeBuy), other low cost homes for sale and intermediate rent.

Legal Services Commission

- Runs the legal aid scheme in England and Wales.
- Provides information, advice and legal representation to help about 2 million people each year get access to justice.
- The Community Legal Service (CLS) helps people with civil legal problems such as family breakdown, debt and housing.
- The Criminal Defence Service (CDS) helps people who are under police investigation or facing criminal charges.

Leitch Review The Government commissioned Sandy Leitch in 2004 to undertake an independent review of the UK's long-term skills needs. The final report of the Leitch Review of Skills: *Prosperity for all in the global economy – world class skills*, was published on 5 December 2006. The Review sets out a compelling vision for the UK. It shows that the UK must urgently raise achievements at all levels of skills and

	recommends that it commit to becoming a world leader in skills by 2020, benchmarked against the upper quartile of the OECD. This means doubling attainment at most levels of skill. Responsibility for achieving ambitions must be shared between Government, employers and individuals.
Licensed lenders	Licensed by the Office of Fair Trading (OFT) under the terms of the Consumer Credit Act 1974. The Consumer Credit Act 2006 amends the Consumer Credit Act 1974 to include new provisions to improve and strengthen the licensing regime administered by the Office of Fair Trading (OFT). Effectively the opposite of unlicensed, illegal moneylenders (see earlier).
Local Housing Allowance (LHA)	LHA is a new way of working out housing benefit for people who rent from a private landlord, and has been running in pilot areas across the country. These pilots have been deemed very successful and the scheme is due to be rolled out nationally. LHA is based on the number of rooms people are allowed – not how much the rent is. The number of bedrooms tenant(s) are allowed depends on who lives with them. It applies to most private sector accommodation with some exceptions, and is now due to be rolled out nationally on 7 April 2008.
Low income (household)	The generally adopted definition is a threshold below 60 per cent of contemporary median equivalised household disposable income. Equivalisation – in analysing the distribution of income, household disposable income is usually adjusted to take account of the size and composition of the household.
Mail order catalogue	A commercial document used to invite someone to purchase goods in return for payment. Usually the goods purchased will be supplied on credit with repayment by way of a set weekly amount, with total payment being (much) in excess of that which would be paid for a simple cash purchase.
Market disrupting (technology)	Disruptive technology or disruptive innovation is a technological innovation, product, or service that eventually overturns the existing dominant technology or status quo product in the market.

Money Advice and Budgeting Scheme (MABS) An integrated model for the combined delivery of money advice, budgeting and credit union services that has been well developed in Ireland where it operates nationally with support from the Irish Government. There have been a few successful pilots in England and Wales to try to introduce this model here.

Money Advice 'Light' A form of prevention-oriented money advice. In practice, much of this light touch advice is best provided from an independent agency; however housing association staff may also be trained to understand the best solutions available for their tenants.

Money laundering The metaphorical 'cleaning of money' with regard to appearances in law, is the practice of engaging in specific financial transactions in order to conceal the identity, source, and/or destination of money. In the past, the term was applied only to financial transactions related to organised crime. Today, its definition is often expanded by government regulators to encompass any financial transaction which generates an asset or a value as the result of an illegal act, which may involve actions such as tax evasion or false accounting.

Moneylender Covers a range of non-bank but licensed creditors providing small unsecured consumer loans to low and moderate income households. Credit charges typically range from 50 per cent APR to 300 per cent APR. The higher cost loans include the cost for doorstep collection.

National Affordable Housing Programme Major source of public finance for new affordable housing for rent and low-cost home ownership, supplied to housing associations through the Housing Corporation in the form of Social Housing Grant.

National Association of Credit Union Workers (NACUW) The voice and professional association for credit union workers throughout Britain (whether employees of a credit union or those who provide support, training and/or development advice to credit unions). It develops and delivers accredited training and best practice.

National Consumer Council (NCC) Aims to help everyone get a better deal by making the consumer voice heard. Its strategic objectives for 2005-08 are:

- to put users at the heart of public services;
- to make markets work for consumers;
- to ensure that disadvantaged and vulnerable consumers get a fair deal;
- to achieve more sustainable consumption.

National Occupational Standards Occupational standards describe the skills, knowledge and understanding needed to undertake a particular task or job to a nationally recognised level of competence.

New Deal for Communities (NDC) A key programme in the Government's strategy to tackle multiple deprivation in the most deprived neighbourhoods in the country, giving some of our poorest communities the resources to tackle their problems in an intensive and co-ordinated way. The aim is to bridge the gap between these neighbourhoods and the rest of England. The problems of each NDC neighbourhood are unique, but all the NDC partnerships are tackling five key themes of:

- poor job prospects;
- high levels of crime;
- educational under-achievement; poor health;
- problems with housing;
- problems with the physical environment.

Office of Fair Trading (OFT) Is an independent professional organisation. It aims to play a leading role in promoting and protecting consumer interests throughout the UK, while ensuring that businesses are fair and competitive. Its tools to carry out this work are the powers granted under consumer and competition legislation.

Overdraft Occurs when a customer borrows from the bank by arranging to withdraw more money than they have in their bank account up to an agreed limit.

Over-indebtedness The term over-indebtedness is used to describe debt which has become a major burden for the borrower. Over-indebtedness can be caused by, and contributes to social exclusion, financial exclusion and poverty (DBERR).

Pawnbroker Offers monetary loans in exchange for an item of value to the given pawn broker. The items having been pawned to the broker are themselves called pledges or pawns, or simply the collateral. Within a certain contractual period of time, the pawner of an item may purchase it back for the amount of the loan plus some agreed upon fee. If the time elapses without payment, the pawnbroker is allowed to sell the pledged item to recoup the amount of the loan, which may have only been a fraction of the item's actual market value.

Payday lenders Provide payday loans or paycheck advances. These are small, short-term loans that are intended to cover a borrower's expenses until his or her next payday. Typical loans are between £100 and £1500, on a two-week term and often have interest rates up to 900 per cent.

Phoenix Fund Set up to encourage entrepreneurship as a means of tackling social exclusion. It was administered by the Small Business Service as part of the Department for Trade & Industry and consisted of four streams:

(a) A Development Fund to promote innovative ways of supporting enterprise in deprived areas.
(b) A national network of mentors to pre- and early stage business start-ups through a new Business Volunteer Mentors Association.
(c) A Challenge Fund to help resource Community Finance Initiatives.
(d) Loan Guarantees to help co-finance commercial and charitable lending to CDFIs

Place making Focuses on the ingredients that contribute to our 'sense of place' whilst generating an awareness of – and consideration for – individual and collective needs within a community.

Policy Action Teams (PATs) Task Forces set up in 1997 by the new Labour Government's Social Exclusion Unit to investigate a broad range of social exclusion areas. PAT 14 looked in depth at financial exclusion.

Post Office Card Account (POCA) A cash-in and cash-out card that enables benefits to be withdrawn through the Post Office Network. The card has no other functionality and cannot be used to pay bills.

Rental purchase Is an agreement for the purchase of a dwelling under which the whole or part of the purchase price is to be paid in more than one instalment and the completion of the purchase is deferred until the whole or a specified part of the purchase price has been paid.

Right to Acquire Introduced in The Housing Act 1996 this gives eligible housing association tenants a statutory right to purchase at a discount the property in which they live. Right to Acquire only applies to properties built or acquired by housing associations, both charitable and non charitable, with public funds from 1 April 1997 onwards. (Properties transferred from a local authority to a housing association after 1 April 1997 are also eligible.) Some properties are exempt including those in small rural settlements and sheltered housing.

Right to Buy First introduced in 1980, the Right to Buy scheme is aimed at secure tenants of local authorities and those housing association assured tenants who previously held secure tenancies with local authorities. It is open to virtually any secure tenant who can afford to buy. Under s157 of the Housing Act 1985, social landlords in specified areas may impose restrictions on the subsequent resale of homes acquired under the Right to Buy scheme.

Sale and buy back The cash receiver (seller) sells an asset now, in return for cash, to the cash provider (buyer), and agrees to repurchase the asset from the buyer for a greater sum of cash at some later date, that greater sum being all of the cash lent and some extra cash (constituting interest).

Savings Gateway The Government is exploring the use of matching (a Government contribution for each pound saved) to encourage saving among lower-income households and to promote engagement with mainstream financial services. Matching provides a more understandable, transparent and equitable framework of support for savers, and greater incentives for those on lower incomes who benefit less from tax relief. There have been two pilot phases, and the Government is currently reviewing its options for the possible future rollout of the scheme.

Shared equity A means of helping people into home ownership. The buyer purchases a share of their home, with the remaining share being held by another party, for example, a housing association. When the home owner comes to sell the home, the other party would be entitled to some of the proceeds of the sale. Many shared equity homes are intermediate housing provided in part through Social Housing Grant.

Single Regeneration Budget (SRB) Designed to provide funding to support regeneration activities in England carried out by local groups. It was an important tool in the Government's drive to tackle social exclusion and promote equality of opportunity. The main aim of SRB was to improve the quality of life of local people in areas of need by reducing the gap between deprived and well-off areas, and between the less well off and better off groups of people.

Small Business Service (SBS) On 17 July 2007, the Small Business Service was renamed the 'Enterprise Directorate' within the Department for Business, Enterprise and Regulatory Reform. Its emphasis is on enterprise and growth. The Enterprise Directorate continues to be the expert policy unit on small business issues throughout Government.

Social cohesion There are diverging views on the definition of community cohesion, but there is general agreement about the features a cohesive community should display. The Local Government Association/ Home Office's definition is that a cohesive community is one where:

- there is a common vision and a sense of belonging for all communities;
- the diversity of people's different backgrounds and circumstances is appreciated and positively valued;
- those from different backgrounds have similar life opportunities;
- strong and positive relationships are being developed between people from different backgrounds in the workplace, in schools and within neighbourhoods.

Social Exclusion Unit This has recently been replaced by the new Social Exclusion Taskforce which draws together the expertise of some staff from the former Social Exclusion Unit in the Department for Communities and Local Government and policy specialists from the Prime Minister's Strategy Unit. It will be based in the Cabinet Office. The Taskforce will continue to demonstrate the values that underpinned the success of the Social Exclusion Unit's work – including its commitment to evidence-based policy making, working with stakeholders and giving a voice to disadvantaged groups.

Social Fund Administered by Jobcentre Plus the Social Fund is designed to help people with emergency expenses, including funeral costs, the costs of a new baby or one-off payments for large items, eg, furnishing a home.

Standing order This is an instruction by a bank's customer to the bank, to pay an amount of money regularly to another bank account, either at the same account or elsewhere.

Sub-prime market Means that the borrower has at least some degree of bad credit history.

Tenure The nature of the structure by which people own or rent their home. Categories are usually broken down as follows: owner occupied, private rented,housing association or council rented.

Third Sector Generic collective name for charity, voluntary, community, non-government and campaigning organisations.

Thoresen Review An independent review set up by HM Treasury to look at how Generic Financial Advice can be provided.

Transact Transact is the national forum for financial inclusion, a movement of over 1,000 organisations and individuals dedicated to practising and promoting financial inclusion for the benefit of individual people experiencing hardship and poverty as a result of financial exclusion.

Trusted Partner (Programme)	Whereby the landlord could become the bank's agent for such activities as opening Basic Bank Accounts and/or accessing associated financial service products.
Withdrawable Share Capital	A specific form of share capital that only an Industrial and Provident Society can seek from its members. Any member in an IPS can currently invest up to £20,000 in such a form of capital. Where they are members, IPS organisations though (such as many housing associations) can invest an unlimited amount of withdrawable share capital in other IPS organisations (eg, CDFIs).

Chapter 15

Resources for further information

Social landlords and financial inclusion

- *Credit where credit's due: A Report for the National Housing Federation.* Presents a case for social landlords supporting their tenants to access reasonably priced loans, and outlines a model for doing so. Available at www.housing.org.uk
- *Community Access to Money: Social Landlords Reaping the Benefits.* Very useful case study information on social landlords' engagement in financial inclusion activity. Available at www.housingcorp.gov.uk
- *Life After Debt.* Report arguing the case for greater involvement of the social rented sector in the promotion of financial inclusion, and for more support to enable them to do so, with useful case studies. Available at www.cih.org
- *Financial Inclusion – Good Practice Briefing Number 31.* Free hard copies setting out guidance for social landlords in promoting financial inclusion, available from the Chartered Institute of Housing at www.cih.org
- *Partnerships for Financial Inclusion: Housing Associations and Financial Institutions.* Examines how social landlords can engage in partnership working to promote financial inclusion. Available at www.epolitix.com
- *Community Access to Money: Housing Associations Leading on Financial Inclusion.* Precursor to Reaping the Benefits covering similar ground. Available at ww.housingcorp.gov.uk
- *Win-win – How partnership working delivers the goods for residents, housing associations and furniture re-use organisations.* Free publication outlining the opportunities of social landlords working together with the recycled furniture sector

Advantages include affordable furniture for tenants and excellent value for money for housing associations. This publication by the National Housing Federation and the Furniture Re-use Network is available from www.housing.org.uk

- *A Guide to Financial Capability for Social Housing Tenants.* This guide is a resource for front-line staff, social landlords and practitioners to use in financial capability work with social housing tenants. Available from www. housing.org.uk

Social landlords, arrears management and tenancy sustainment

- *Improving the Effectiveness of Rent Arrears Management: Good Practice Guidance*. Highlights the importance of early intervention in tackling rent arrears, touching on the value of advice interventions. Available at www.communities.gov.uk

- *Sustainable Communities: Settled Homes, Changing Lives.* Most recent strategy from the Government on homelessness prevention. Available at www.communities.gov.uk

Government financial inclusion documents and resources

- *Financial Inclusion the Way Forward*. Update by HM Treasury on progress in delivering the UK Government's financial inclusion strategy. Available at www.hm-treasury.gov.uk

- *Promoting Financial Inclusion*. The 2004 Government strategy for tackling financial exclusion published alongside the 2004 pre budget report. Available at www.hm-treasury.gov.uk

Other financial inclusion documents

- *In Brief: Financial Capability* and *In Brief: Financial Exclusion*. Short briefings from Transact and the Resolution Foundation on financial capability and financial exclusion at www.resolutionfoundation.org

Useful financial inclusion websites

Representative Bodies/Forums:

- **Transact**. The national forum for financial inclusion. www.transact.org.uk

- **Association of British Credit Unions**. The representative body for credit unions. www.abcul.org

- **National Association of Credut Union Workers**. The professional development association for credit union staff. www.ncuw.org.uk

- **Citizen's Advice**. The representative body for CABx in England. www.citizensadvice.org.uk
- **Community Development Finance Association**. The representative body for CDFIs. www.cdfa.org.uk
- **Money Advice Trust**. Representative body for the independent money advice sector. www.moneyadvicetrust.org

Government bodies/reviews

- **Department for Work and Pensions**. Statistics about benefit take up rates nationally and the take up of benefits across the UK. www.dwp.gov.uk
- **Financial Services Authority**. The UK's financial watchdog set up by Government to regulate financial services and protect your rights. www.fsa.gov.uk
- **Now Let's Talk Money**. Information on Government campaign to tackle financial exclusion, with lots of information for service users, and on joint initiatives with social landlords. www.nowletstalkmoney.com
- **Thoresen Review Website**. Up-to-date information on the Government's review of how to increase access to financial advice, with a target group which will include many social housing tenants, and shared owners. ww.hm-treasury.gov.uk
- **Treasury Select Committee.** Hard hitting reports relating to financial exclusion. www.parliament.uk