



CHARTERED INSTITUTE  
OF HOUSING



# LIFE AFTER DEBT

residents, social landlords and financial inclusion



Rachel Terry

Christoph Sinn

Merron Simpson



# **LIFE AFTER DEBT: residents, social landlords and financial inclusion**

**Rachel Terry  
Christoph Sinn  
Merron Simpson**

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**CIH**

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**February 2006**

### **The Chartered Institute of Housing**

The Chartered Institute of Housing (CIH) is the professional organisation for people who work in housing. Its purpose is to maximise the contribution housing professionals make to the wellbeing of communities. The Chartered Institute has over 19,500 members across the UK and the Asian Pacific working in a range of organisations – including housing associations, local authorities, arms length management organisations, the private sector and educational institutions.

Chartered Institute of Housing, Octavia House, Westwood Way, Coventry CV4 8JP

Tel: 024 7685 1700 Fax: 024 7669 5110 Website: [www.cih.org](http://www.cih.org)

### **The Housing Corporation**

The Housing Corporation is the government agency that registers and regulates social landlords in England. It invests in social landlords and other bodies which now provide over two million affordable homes for people in need. The Corporation has an important role in promoting sustainable communities and good practice.

Housing Corporation, 149 Tottenham Court Road, London W1T 7BN

Tel: 0845 230 7000 Email: [enquiries@housingcorp.gsx.gov.uk](mailto:enquiries@housingcorp.gsx.gov.uk) Website: [www.housingcorp.gov.uk](http://www.housingcorp.gov.uk)

### ***Life After Debt: residents, social landlords and financial inclusion***

By Rachel Terry, Christoph Sinn and Merron Simpson

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## FOREWORD

Citizens Advice welcomes this new report from CIH which illustrates why housing organisations should be getting on board with the financial inclusion agenda, and how they can make a difference.

Every year Citizens Advice Bureaux throughout England and Wales are helping millions of people to resolve problem debts. Our clients earn half the average income or rely on welfare benefits. The scale of their debts is nevertheless huge. On average, people we help owe £12,500 of consumer credit debt alone, and the impact of that debt can take a very long time to address. Families break up over debt, people find it hard to hold down a job and deal with life when they are under the extreme stress that debt can bring.

And too many people also still lack the basic knowledge and skills to enable them to manage their finances effectively – limiting their ability to escape from debt and financial exclusion.

Many of us are already working to achieve solutions to the linked problems of poverty, debt and financial exclusion. The Government has expressed its commitment through the exciting new £120m Financial Inclusion Fund intended to secure a step change in the availability of free face to face money advice and generate greater supply of affordable credit in the areas most in need.

But there is more that we can all do – and we will achieve more by working together to identify and deliver innovative solutions and practical help to people experiencing financial exclusion. This report shows how housing organisations are well placed to play a prominent role in supporting people to becoming more financially included, whether this by helping people to deal with debt, prevent debt, or to become more financially confident and secure. Partnerships between housing providers, advice centres and credit unions can be very successful, pooling the skills and expertise of the different partner agencies.

The report also illustrates the need for continuing development of the policy framework relating to financial inclusion if all key agencies are to play a part in making a difference. The recommendations are designed to ensure that housing organisations are not only seen to be but are actively encouraged and enabled to make a long term and strategic commitment to tackling financial exclusion.

At Citizens Advice we really welcome the opportunity to work more closely in partnership with housing organisations to tackle financial exclusion in the communities we serve, and to work together to get the right policy context for the future.

TERESA PERCHARD

Director of Policy, Citizens Advice

# 1 EXECUTIVE SUMMARY

Tackling financial inclusion has become a government priority. The agenda has moved on significantly since the Chartered Institute Housing (CIH), supported by the Housing Corporation, published *Breaking Free: financial awareness and the role of social landlords* in 2003.

This second report, *Life After Debt: residents, social landlords and financial inclusion* explains those developments that are relevant to providers of social housing, describes some interesting work being carried out by housing organisations, provides survey data and draws some conclusions and recommendations. It embraces a wider range of approaches to tackling the different facets of financial exclusion than *Breaking Free*, which has a narrower focus on financial awareness training.

## Financial inclusion explained

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Financial exclusion can be described as the inability to access financial services, such as a bank account, in an appropriate form. One in twelve households in the UK lacks access to a bank account of any kind. For them the costs of cashing cheques and paying bills are high, and other services, such as hiring videos and contract mobile telephones, are unavailable.

The implications can be much broader. Exclusion from mainstream financial systems presents a barrier to learning about the various financial products available. Families can be locked in a cycle of poverty and exclusion, or turn to high cost credit or illegal lenders, resulting in greater financial strain and unmanageable debt.

Social landlords are very aware of the financial problems faced by some of their residents and the negative impacts on the communities they serve. Many are actively providing welfare benefits and debt advice to tenants, but there is scope to expand their role to ensure that their tenants and other residents have better access to key financial services.

## Government policy and recent initiatives

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In 1999 one of the Policy Action Teams (PAT 14) set up by the Social Exclusion Unit recommended three-fold action: providing insurance with rent, a wider role for credit unions and the need for basic bank accounts as a route into financial inclusion. Some progress has been made against these. All major high street banks now offer a basic bank account and by December 2004, over one million accounts had been opened. However, getting a bank account is not always helpful and does not diminish the need for guidance and training in money management skills.

Treasury is now focusing on three specific areas (i) access to more appropriate bank accounts for low-income households (ii) access to affordable credit and (iii) access to free face-to-face money advice. A Financial Inclusion Fund of £120m has been made available to support these objectives and the Financial Inclusion Taskforce, chaired by Brian Pomeroy CBE, has also been set up to monitor progress towards tackling financial exclusion.

Since 2004, there have been modest reforms to the Social Fund intended both to improve it as a source of affordable credit and to better target resources at those in greatest need. More could be done, though, by expanding the size of the cash-limited pot and integrating it better with the wider financial inclusion and asset-building agenda. Government also wants to support third sector lenders – credit unions and community development finance institutions (CDFIs) – in providing affordable credit. Social landlords increasingly provide their residents with access to low cost loans

either directly or by supporting a credit union or CDFI (13 landlords out of a sample of 49 did so, compared to none six years ago). The Competition Commission is currently investigating the 'home credit market'. Early findings show that there is a lack of competition and too little information about the cost of their loans. Nevertheless, many borrowers say they are happy with their loans.

Government is aiming to improve access to money advice by providing a new telephone gateway and allocating £45m from the Financial Inclusion Fund, to increase the number of advisors offering free face-to-face debt advice.

Closely linked to tackling financial exclusion is the development by government of an asset-based welfare policy that includes the Child Trust Fund and the Saving Gateway to promote savings – the pilots for which have had positive outcomes. HomeBuy, that helps individuals to acquire a share in their home, will shortly be piloted.

The Department for Education and Skills ran pilots of the Community Finance Learning Initiative (CFLI) to test the concept of providing financial awareness training, but with limited success. The FSA has a statutory duty to promote public understanding of the financial system and will soon be introducing a financial planning health check to help consumers resolve money dilemmas.

In November 2005, the Housing Corporation launched its Money Access Programme. It aims to help housing associations and other social landlords do more to tackle financial exclusion.

### Case studies

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This report features the work of eleven landlords that are addressing financial exclusion, five of which were featured in the original 2003 report.

Reducing rent arrears levels is not the only reason why landlords take action to promote financial inclusion – they genuinely want to enhance the quality of residents' lives. Most landlords work to help residents maximise their income as part of an arrears recovery strategy and signpost residents to relevant agencies, such as debt advisors. Some landlords also engage in more sophisticated activities designed to improve knowledge, prevent debt building up, help residents to manage their money better and help them to save. Partnership working is essential in promoting financial inclusion to play to organisations' strengths and maximise the impact of individual financial inclusion activities.

A number of the case study landlords took part in the DfES Community Learning Finance Initiative (CFLI). They found the educational focus of the initiative did not strike much of a chord with residents partly because they did not want to share information in a classroom setting. However, in some circumstances there is a demand for classroom learning programmes, particularly where landlords have a strong culture of participation. The Saving Gateway pilots were largely successful.

A new approach to financial inclusion is emerging among housing providers that are aiming to respond to their customers' aspirations to purchase their home. Notting Hill Housing is devising a programme to help tenants in taking the necessary steps towards becoming responsible home owners, including advice to help them make good decisions and to manage their money well, incentives to save and the motivation to carry out repairs.

Those landlords that are strong on resident and community involvement and where trust is fostered, usually have more success in tackling financial exclusion. However, even the best landlords can only do so much to persuade tenants to take up what is on offer and they have suggested that financial incentives for residents, such as matched savings, would help.

## Survey results

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In a survey of English housing associations, most of the 49 respondents are undertaking financial inclusion work with their residents. As well as being an important element of arrears prevention the wider role of social landlords in creating sustainable communities is repeatedly mentioned. Those not engaged in promoting financial inclusion think that their organisation has got a role to play.

Advice regarding benefits and debts are the most widespread activities closely followed by money advice, the provision of contents insurance and measures to address fuel poverty. Providing access to financial services and education in money management skills are relatively new types of activity for landlords, becoming more common over the last five years. Most work in partnerships with others, particularly community finance institutions and advice agencies, signposting their residents to the services available. Around half of all landlords employ dedicated staff, particularly in regard to banking related services. Generic housing staff also undertake financial inclusion work.

Landlords have difficulties measuring the overall impact of their initiatives and there is a need to develop some sort of evaluative framework to capture both outputs and outcomes more accurately and effectively.

Well over three quarters of respondents fund their initiatives internally through rental income. Landlords would develop more sophisticated approaches if additional funding was made available.

## Conclusions and recommendations

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While significant progress has been made in recent years in tackling financial exclusion there is still a long way to go and in some ways the situation has become more difficult. CIH is recommending action on four fronts which, taken together, would support social landlords and the government in their efforts to deliver financial inclusion and help to reduce reliance on high cost credit options, including doorstep lenders and unlicensed loan sharks. These are:

- develop more suitable financial products for people on low incomes;
- adopt more preventative approaches;
- provide incentives to encourage take up of financial services; and
- develop the landlord role.

### RECOMMENDATIONS TO DEVELOP MORE SUITABLE FINANCIAL PRODUCTS

1. The Social Fund needs to be reformed to provide more individuals with better access to small amounts of affordable credit and to better integrate it with asset-building programmes.
2. Treasury should undertake research to identify products and features that would be suitable to people on low incomes.
3. Government must support the development of suitable products – including affordable loans and products that make it easy and worthwhile saving – once the important features have been identified, by changing legislation, regulations and taxation rules, for example.
4. Government should review the rules governing financial institutions, third sector lenders and housing providers to enable them to provide appropriate financial products for people on low incomes. Organisations that can administer relatively small deposits must be supported and encouraged to do so, and helped to bear the associated costs.

#### RECOMMENDATIONS TO ADOPT MORE PREVENTATIVE APPROACHES

5. The DfES should encourage innovative methods of 'teaching' individuals and families about financial matters in a range of settings, and should find ways of actively sharing good practice to a range of institutions – including, for example, schools and social landlords.
6. Treasury should consider how the availability of money advice across a wide range of money matters, as well as debt advice, can be increased.
7. Landlords should consider training their workforce to give out basic information and provide more opportunities for their residents to take up money advice – such as at tenancy sign-up and at an early stage when dealing with arrears.
8. The Financial Services Authority (FSA) should consider how landlords might be able to help them to deliver their consumer education campaign and the financial planning health check.

#### RECOMMENDATIONS TO PROVIDE INCENTIVES TO ENCOURAGE TAKE-UP OF FINANCIAL SERVICES

9. Treasury could look at offering hard financial incentives that encourage individuals to open a bank account and take up money advice, for example.
10. Landlords could consider providing their residents with a range of financial incentives that both support their own business objectives and encourage good money management habits.

#### RECOMMENDATIONS TO DEVELOP THE LANDLORD ROLE

11. More thorough evaluation is required to establish what works best and what does not work well when social landlords get involved in promoting financial inclusion. The Treasury, ODPM and the Housing Corporation (as well as other bodies such as the Chartered Institute of Housing and the National Housing Federation) should actively support efforts to measure success and should consider drawing up a framework for evaluating different approaches.
12. The Treasury should consider ways in which landlords might be able to support the various programmes to tackle financial inclusion, such as providing information on schemes like the Child Trust Fund and Saving Gateway. The best results are likely to be achieved by building their role into the delivery of these initiatives to residents.
13. ODPM and the Housing Corporation should prepare a 'financial inclusion toolkit' for social landlords containing a range of types of activity and advice on how to employ them to best effect. The toolkit should then be updated regularly as more experience is gained of what works.
14. Landlords should consider drawing up and implementing a strategy for improving the money management skills of their residents wherever they are at financially (not only those in rent arrears or with serious financial problems). In doing this they can draw on surveys that seek to find out the financial ambitions of their own residents and the sort of financial advice or products they require. They can also use their wider knowledge about what is popular with residents and what will work.
15. Landlords' strategies need to contain effective processes for reaching and communicating with residents. For example every new tenant should receive some information about the availability of welfare and money advice at the point of signing up for their tenancy, and should be encouraged to get a bank account if they do not have one.
16. Social landlords will need to establish or build on existing partnerships with others including banks, credit unions, money advice agencies, etc to develop effective and proactive solutions to tackle financial exclusion.
17. Clarity is needed regarding the types of information that landlords can legally and usefully give their residents. ODPM and the Housing Corporation should consider providing guidance to social landlords as well as clarity over the circumstances in which they would be best to refer residents to an independent money or financial adviser.
18. A programme of training is needed to equip housing officers or other employees with the necessary skills to (i) broach the subject of money management with residents in a way that will persuade them to take up money advice and consider other initiatives (ii) give information that they are legally permitted to and that is useful to residents, and (iii) refer residents to the relevant body for further advice.
19. Government should consider making some resources available to support landlords in expanding their financial inclusion work and making it more sophisticated.

## 2 INTRODUCTION

<sup>1</sup> CIH (2003) *Breaking Free: Financial Awareness and the role of social landlords*. Newcombe R, Whitehead C, and Lovatt R.

<sup>2</sup> Cambridge University (2002) *Partnerships for financial inclusion: housing associations and financial institutions*. Newcombe R, Cox A, Neuburger J and Whitehead C.

<sup>3</sup> ODPM (2005) *HomeBuy – expanding the opportunity to own: government's response*

In 2003, the Chartered Institute of Housing, sponsored by the Housing Corporation, commissioned researchers at Cambridge University to explore the extent to which landlords of social housing were providing financial awareness training for their tenants. This resulted in the publication *Breaking Free: Financial awareness and the role of social landlords*.<sup>1</sup>

This report followed earlier research that showed that as many as 84 per cent of financially-excluded people may be social housing tenants<sup>2</sup> and that products aimed at financially-excluded people are less likely to work if they are not linked to some form of training to improve their awareness of what the different financial products can offer and how to make use of them.

Since then, financial inclusion has become a major drive for government in a number of ways.

The Department for Work and Pensions (DWP) is working towards paying all benefits by electronic transfer requiring individuals to have a bank account capable of this kind of transaction. Millions of claimants currently use Post Office Card Accounts although there is no guarantee that this service will continue beyond 2010. Added to this, the department is working on plans to introduce a flat rate allowance of housing benefit and direct payment of this allowance to tenants. Clearly this will have implications for social as well as private landlords who will wish to ensure that as many of their tenants as possible have bank accounts capable of paying standing orders or direct debit, and that they are able to persuade them to pay their rent by direct debit.

Partly in support of these developments, and partly so that more people can take advantage of cheaper payment options, the Treasury is acting to promote take up of basic bank accounts. Two other priority areas that it has identified are the need for better access to affordable credit – particularly small loans repayable over short timescales – and also the provision of face-to-face money advice. A Financial Inclusion Fund of £120m has been made available in support of these objectives and a Financial Inclusion Taskforce has been set up to monitor progress towards tackling financial exclusion.

The government's asset-owning policy forms part of its aim to improve people's financial circumstances. Two key policies to promote asset accumulation are the Child Trust Fund that became operational in April 2005 and the Saving Gateway that is currently in its second pilot phase.

Government efforts to provide new routes into home ownership are a dominant feature in its asset-owning agenda. Owning a home is believed to provide a psychological as well as a financial benefit. Government has estimated that around 100,000 social housing tenants will purchase a share of a home through its HomeBuy<sup>3</sup> programme by 2010.

Increasing numbers of affordable housing providers are becoming aware of the benefits, both to themselves and to their residents, of higher levels of financial awareness and inclusion. Most already provide informal advice to tenants on how to maximise their income and help them to fill in the relevant forms, and many also provide access to debt counselling (although this tends only to be once the debt problem is showing up in the form of severe rent arrears). A much smaller but significant number of social landlords are taking sophisticated approaches that embrace debt prevention and innovative ways of educating individuals to manage their personal finances well.

A new approach to financial inclusion is emerging among housing providers that are aiming to respond to their customers' aspirations to purchase their home. They are devising programmes that bring together their financial inclusion and low cost home ownership activities so that tenants are provided with help in taking the necessary steps towards becoming responsible home owners. This includes help and advice to enable them to make informed financial decisions and to manage their money well as well as providing incentives to save and the motivation to carry out their own repairs. This approach is illustrated in this report by Notting Hill Housing.

This report builds on the previous *Breaking Free* report. One key difference is that it embraces a much wider range of approaches to tackling the different facets of financial exclusion rather than focusing on financial awareness training. The report provides an explanation of financial inclusion (section 3), and gives an update of developments in government thinking and of policy developments to achieve financial inclusion (section 4). It includes eleven case studies of landlords that are engaged in various activities to promote financial inclusion (section 5) and the findings of a survey of housing associations to find out what kind of financial inclusion activities they are involved in (section 6).

Our analysis of the issue, which also includes other discussions with social landlords, has led us to put forward some conclusions and recommendations for tackling financial exclusion, particularly among tenants and residents of social landlords (see section 7). A key conclusion is that while there is some good work going on, social landlords are capable of developing a much bigger and more sophisticated role in the struggle for financial inclusion of their residents. We are suggesting action on four fronts to support landlords in developing their role so that they are also acting strategically to help their residents develop money management skills and to prevent debt problems occurring in the first place.

### 3 FINANCIAL EXCLUSION EXPLAINED

<sup>4</sup> Centre for Research into Socially Inclusive Services, 2003.

<sup>5</sup> Treasury (2004) *Promoting financial inclusion*

<sup>6</sup> Treasury (2004) extracts from the foreword to *Promoting financial inclusion*

Financial exclusion can be described as the inability of individuals, households or groups to access necessary financial services in an appropriate form. It leads to exclusion from cheaper services (such as gas and electricity paid by direct debit) and makes them reliant on expensive (and sometime extortionate) financial services – such as cashing cheques and taking out doorstep loans for small amounts. Exclusion from mainstream financial systems also presents a barrier to ever understanding the various financial products available.

Exclusion can come about as a result of problems with access, prices, marketing or financial literacy, or from self-exclusion in response to negative experiences or perceptions.<sup>4</sup>

In the Treasury's December 2004 paper *Promoting financial inclusion*,<sup>5</sup> the government set out some common characteristics of those regarded as financially-excluded. People living in socially rented accommodation, lone parents, people living on a low income and those in receipt of benefits are more likely to lack access to banking facilities and affordable credit. These groups are most in need of face-to-face money advice.

Social landlords are well aware of the financial problems faced by low-income households, the lack of access to affordable credit and the negative impacts of financial exclusion in the communities they serve. They see the results in the form of persistent rent arrears, anxious behaviour and weak local economies.

Tackling financial exclusion requires a wide range of actions by a number of organisations committed to long-term involvement in the community. These include social landlords, welfare benefits advisers, money advisers, debt advisers, the Post Office, banks, credit unions or others offering savings and affordable loans. Social landlords are active in providing welfare benefits and debt advice to tenants, but many could do more to ensure that their tenants and other residents know what other advice and financial products are available locally.

#### FINANCIAL EXCLUSION ISSUES IN THE UK<sup>6</sup>

Many people, particularly those living on low incomes, cannot access mainstream financial products such as bank accounts and low-cost loans.

This financial exclusion imposes real costs on individuals and their families – often the most vulnerable people in our society. It also has costs for the communities in which they live.

Despite the UK having one of the most diverse financial services sectors in the world, financial exclusion remains a reality for many people.

One in twelve households in the UK lacks access to a bank account of any kind. For them the costs of transactions as simple as cashing cheques or paying bills are high, and services such as hiring videos and contract mobile telephones are unavailable.

While lacking a bank account has costs in itself the implications of financial exclusion can be much broader. Families can be locked in a cycle of poverty and exclusion, or turn to high cost credit or even illegal lenders, resulting in greater financial strain and unmanageable debt.

They may also suffer from a lack of quality advice on how to improve their finances. These can, in turn, contribute to over-indebtedness and further social exclusion.

## 4 GOVERNMENT POLICY AND RECENT INITIATIVES

<sup>7</sup> Speech by David Blunkett to the Institute for Public Policy Research, 5 July 2005.

Tackling financial exclusion has become a key area of government policy. It is impeding other important government objectives, including: improving the performance of the economy, improving social equality, tackling social exclusion and eradicating child poverty. This section of the report shows that the government is now tackling many aspects of financial inclusion from a number of angles.

Government made a commitment to tackle financial exclusion in the July 2004 Spending Review. It undertook to publish proposals in three specific areas:

- access to more appropriate bank accounts for low-income households;
- access to affordable credit; and
- access to free face-to-face money advice.

The Spending Review also set out the government's intention to establish:

- a Financial Inclusion Taskforce to monitor progress against the objectives the government has set, and to report to government on what more can be done; and
- a Financial Inclusion Fund of £120 million over three years from April 2005, to support initiatives to tackle financial exclusion. In particular, the fund will support the government's aims to increase access to affordable forms of credit and to see a significant increase in the capacity of free face-to-face money advice.

The Treasury's December 2004 paper *Promoting financial inclusion*, set out in more detail how work in these areas would be taken forward.

The Taskforce was established in February 2005 and is chaired by Brian Pomeroy CBE. Different parts of the Financial Inclusion Fund are being allocated to practitioners, subject to a bidding process that is currently in progress (as of February 2006).

Closely linked to tackling financial exclusion is the development by government of an asset-based welfare policy. Ingredients for implementing this policy include the Child Trust Fund, Saving Gateway and Social HomeBuy. The Saving Gateway is covered in more depth on page 22 and 23.

The government has a policy of encouraging personal rights and responsibilities. This has led to the current piloting of a flat rate housing allowance for private sector tenants in 15 Pathfinder areas, with the allowance paid direct to the tenant. It is intended that this will empower tenants to make choices about where they live. Subject to positive evaluation evidence, the government plans to roll out the flat rate scheme nationally for private sector tenants. This is likely in time to

### ASSET-BASED WELFARE

In July 2005, David Blunkett, then Minister for Work and Pensions, said<sup>7</sup>

'If we are to prevent future poverty as opposed to ameliorating it, the support we provide to build assets – both at an individual and community level – will be absolutely crucial.

Asset policies can offer unparalleled opportunity in the fight to prevent future poverty, stopping people falling into poverty when circumstances change, and by enabling families to build intergenerational stepping stones out of poverty.

Recent years have seen an ownership revolution – from business and share ownership to homes. Now we need to think about the change in the next thirty years when grandparents, aunts and uncles pass on their assets to the next generation in a way that was never possible before.

But as well as opportunity there is also danger as those who are asset-poor will become even more entrenched in their poverty and even further from the asset-rich.'

<sup>8</sup> Social Exclusion Unit (1999) *Policy Action Team: Financial Services*

<sup>9</sup> Housing Corporation (2001) *Insurance for All: A good practice guide*

<sup>10</sup> Treasury (2005) *Britain meeting the global challenge: enterprise, fairness and responsibility*

include the replacement of housing benefit. If introduced, direct payment to the tenant will require all social housing tenants currently in receipt of housing benefit to have a bank account or a Post Office Card Account (POCA).

## POST OFFICE CARD ACCOUNT

A Post Office Card Account (POCA) provides a card for the receipt of electronic payments at post offices. POCA's can perhaps be seen as a small step towards mainstream banking but do not have all the money management features of bank accounts (they cannot be used to deposit cash or cheques, for example) and therefore are of little help in promoting financial inclusion. There are no current plans to continue to provide POCA's beyond the term of the current contract, which expires in 2010.

### Progress following Policy Action Team 14 - Financial Services

The government has been concerned about the problems of financial exclusion for some time. The Social Exclusion Unit set up Policy Action Team 14 (PAT 14), alongside other PATs, to focus on access to financial services. In its report in 1999<sup>8</sup>, it put forward three measures to address financial exclusion:

- **insurance with rent** – PAT 14 noted the difficulties facing households in deprived communities in accessing various forms of insurance. The Housing Corporation has since provided guidance on combining insurance with rent payments<sup>9</sup>. Currently around half of local authorities and a number of housing associations operate such schemes, but take up by residents is disappointingly low.
- **a wider role for credit unions** – to provide affordable credit and promote small-scale savings among people on low incomes. As a result of PAT 14 and the government's 1999 Credit Union Taskforce, several reforms have been implemented, including:
  - support from the government and banks to expand and consolidate the existing credit union network;
  - deregulatory measures to help increase the competitiveness and flexibility of credit unions; and
  - bringing credit unions under the regulation of the Financial Services Authority (FSA) in July 2002. Since then, credit unions have been officially recognised as deposit takers, providing greater consumer protection for credit union members.

In March 2004, credit unions called for the right to offer the government's child trust fund to their members. They feared that they could lose members as parents withdraw their children's savings and open a child trust fund with a bank. The difficulty is that credit unions cannot offer the product, which combines cash savings with equities, because they cannot trade in shares. The Treasury's response was that a company wishing to offer child trust funds must offer the stakeholder product, which has a portion of equities and a portion of cash.

- **the need for basic bank accounts as an important means of dealing with financial exclusion and providing a gateway to wider mainstream services** – all major high street banks now offer a basic bank account designed to meet the banking requirements of people for whom a standard current account would otherwise be unavailable or unsuitable.

## CREDIT UNIONS

Credit unions are mutual financial organisations offering savings and loan facilities to their members. In 2003, there were 655 credit unions in Britain serving over 410,000 members. Credit unions are legally obliged to define a group of people who share a 'common bond' from whom they can recruit their membership and to whom they can provide services. This is often the workplace and/or the local community. The Treasury's 2005 pre-budget report<sup>10</sup> announced that credit unions would be able to increase the amount they charge on loans from 1 per cent to 2 per cent per month.

<sup>11</sup>National Consumer Council (2005) *Basic banking – getting the first step right, by policy*

<sup>12</sup>The POCA was introduced in recognition of the fact that many DWP customers would not open a bank account in the timescale required for the Payments Modernisation Plan. The government persuaded the banking industry to make a large financial contribution to the implementation of POCA's.

<sup>13</sup>National Consumer Council (2005) extract from *affordable credit by policy*

However, getting a bank account does not always provide a solution to financial inclusion. Unless individuals are also able to manage their money, it can even exacerbate problem. Research into basic banking for the National Consumer Council (NCC) by policy<sup>11</sup> found that:

- consumers without bank accounts are overwhelmingly the most vulnerable in society - half have been receiving benefits for more than five years;
- having a basic bank account does not necessarily result in meaningful financial inclusion - half of basic bank account holders still prefer to manage their money in cash; and
- use of a bank account for money management can undermine previously successful cash-based money management strategies - low-income consumers with bank accounts have higher levels of borrowing and arrears than their counterparts without a bank account.

## BASIC BANK ACCOUNTS

Basic bank accounts provide essential financial services such as enabling people to pay their bills by direct debit, pay in cheques and cash, make cash withdrawals 24 hours a day and receive income and benefit payments. They are specifically designed to minimise the risk of an unauthorised overdraft and should not, therefore, require a credit check before they can be opened. In practice, this lack of an overdraft facility has led to high charges being levied when a direct debit or standing order has been processed with insufficient funds in the account.

## Electronic payment of benefits

Also in 1999, the government announced the Payments Modernisation Plan, which would enable electronic payment of DWP benefits to claimants' accounts. It was envisaged that this would drive the uptake of basic bank accounts. Indeed, in December 2004 the government estimated that over one million basic bank accounts had been opened since 1999. Nevertheless, many DWP customers have chosen to use a Post Office Card Account (POCA)<sup>12</sup> to receive their benefits.

## Social Fund

PAT 14 also recommended that DWP (then the Department of Social Security) should explore the scope for reforming the government's discretionary Social Fund. The Social Fund provides a safety net of community care grants and interest-free loans for the most vulnerable in times of crisis, with

### SOCIAL FUND<sup>13</sup>

Social Fund crisis and budgeting loans are the government's safety net for the most vulnerable people in society. The loans are interest-free and usually repaid by deduction from benefit payments. Loans are made from cash-limited budgets according to local priorities. As a result, there is no certainty that an application will be successful - even if the person qualifies for a loan. Also, successful applications often result in a loan of less than the amount requested, leaving the applicant to do without or make up the shortfall some other way.

CRISIS LOANS help meet expenses in an emergency or disaster. For example, providing money for food if a benefit payment has not been made. Applicants do not have to be receiving benefits. A crisis loan is often a small amount - an average of £77 in 2004.

BUDGETING LOANS help meet the costs for larger, necessary, but often one-off expenses that the applicant does not have the savings to finance. For example, a cooker or advance rent payment. Applicants have to be in receipt of income support, job seeker's allowance (income-based) or pension credit. The average loan in 2004 was £384.

repayments deducted direct from benefits. The Social Fund is cash-limited.

In Promoting financial inclusion, the Treasury announced that it intended to increase access to affordable credit by reforms to the Social Fund. These reforms are intended to give greater consistency and transparency in access to loans and strengthen the contribution that the Social Fund can make to affordable credit. Administrative changes have also been implemented to try and ensure that resources are targeted at those who have the greatest needs.

<sup>14</sup>JRF (2005) *Affordable Credit – the way forward*. Collard S, and Kempson E.

<sup>15</sup>In August 2004, the first specialist Islamic British bank, operating according to Sharia law, was authorised as a deposit-taker by the FSA. The Islamic Bank of Britain now has a range of financial products, including mortgages. This is important for the Muslim community but financial advisers point out that returns on Sharia-compliant products may well carry higher risks and costs than conventional loans.

<sup>16</sup>National Consumer Council (2005) *affordable credit by policy*

<sup>17</sup>DTI (2003) *Fair, Clear and Competitive: The consumer credit market in the 21st Century*

<sup>18</sup>DTI and DWP (2004) *Tackling Over-indebtedness Action Plan 2004*.

<sup>19</sup>University of Bristol (2004) *Characteristics of families in debt and the nature of indebtedness*. Kempson, E and McKay, S.

In 2005, an influential Joseph Rowntree Foundation (JRF) report *Affordable Credit – the way forward*<sup>14</sup> pointed out a number of advantages of Social Fund budgeting loans:

- they are interest-free providing benefits to anyone receiving them, including some Muslims whose beliefs cause them to avoid interest payments<sup>15</sup>;
- the application form is relatively straightforward to complete;
- decisions about awards for loans are made fairly promptly; and
- users like the fact that loan repayments are deducted directly from benefits as this minimised the risk of falling into arrears.

The study found some disadvantages too:

- budgetary loans are only available to people who have been in receipt of income support or income-based jobseeker's allowance for at least 26 weeks; and
- there is a lack of knowledge among eligible benefit recipients and a lack of understanding about the rules governing the scheme.

To make the Social Fund more comparable with other sources of credit, repayment levels would need to be reduced further to between five and ten per cent of income.

In their study for the National Consumer Council *affordable credit*<sup>16</sup>, policies found that more than one in five applications for budgeting and crisis loans were unsuccessful. Yet almost 50 per cent of crisis loan refusals were overturned on appeal, indicating that people with genuine needs were being turned away. Their research shows that the majority of people who were rejected from the Social Fund simply do without, but one in four has to borrow from high-cost doorstep lenders and unlicensed loan sharks.

There is scope for more fundamental change to the Social Fund to modernise it further. David Blunkett, then Minister for Work and Pensions, said in a speech on 5 July 2005

*'In the longer term, we must look more widely at whether the Social Fund should be operated by government or whether there is scope for greater partnership arrangements with third sector lenders. Social Fund reform could also link to the Saving Gateway and the wider financial inclusion agenda – so people build assets, become more financially confident and do not need to rely on emergency payments from the state in future.'*

## Action plan on over-indebtedness

The consumer credit white paper<sup>17</sup>, published in December 2003, set out the government's vision to create an efficient, fair and free consumer credit market. Consumers would be empowered to make fully informed decisions and lenders would compete on a fair basis. One of the proposed reforms relating to over-indebtedness was delivery of a single gateway to free telephone debt advice – see page 22. In July 2004, the government published an action plan on over-indebtedness<sup>18</sup>, involving partners in the credit industry, the voluntary and community sector and consumer groups.

The consumer credit white paper also announced two pilot programmes to tackle illegal lending, to be run by trading standards departments in Birmingham and Glasgow.

### UNSECURED BORROWING BY FAMILIES

Research by Elaine Kempson and Steve McKay for DWP in 2004<sup>19</sup> showed that the average amount of unsecured borrowing by families rose from £890 in 1995 to £2,000 in 2000. The study surveyed 1,647 families in arrears. They owed an average of £300 in credit cards, store cards and household bills, plus rent or mortgage arrears. They found that arrears were commonest among the poorest, with gross incomes under £15,000 a year. The level of arrears was higher among tenants than among families buying a home with a mortgage.

## The home credit market

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In December 2004, the Office of Fair Trading (OFT) referred the 'home credit market' to the Competition Commission following a complaint made by the National Consumer Council about the extremely high Annual Percentage Rates (APRs) levied on doorstep loans. The OFT said that competition in the market, which is worth about £2 billion in terms of outstanding debt, appeared to be restricted, with limited incentive for lenders to compete on price or attempt to win business by taking over other lenders' loans.

Early findings of the Competition Commission<sup>20</sup> show that there is a recognition that home credit companies are not competing on price and that their customers are given too little information about the cost of their loans – probably the reason why many such borrowers say they are happy with their loans. The Commission found that customers seldom seek better deals and are not encouraged to do so – a typical six month loan of £100 would cost £160 to repay. It is also concerned that the lenders do not share data on creditworthiness with credit rating agencies, so customers do not get the chance to improve their status and qualify for cheaper credit.

The watchdog is highly sensitive to the need to protect vulnerable consumers but at the same time is wary of damaging the sector. If the home credit market was curtailed without simultaneous expansion of the Social Fund this could leave consumers without access to desperately needed short-term cash loans and at the mercy of loan sharks. The final report from their inquiry into the home credit market is due in July 2006.

The FSA is currently examining the marketing practices of companies that target low-income consumers and typically sell to consumers rejected by mainstream banks and debt consolidation companies – often called sub-prime lenders. The FSA wants to ensure that all promotions are clear, fair and not misleading.

## Affordable and extortionate credit

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Widening access to affordable credit for low-income borrowers<sup>21</sup> is a key element of the Government's commitment to tackling financial exclusion. It wants to

***'...explore mechanisms that allow profitable loans to be made to those on low incomes at a much lower rate of interest. The government therefore intends to work in partnership with the private and voluntary sectors to develop models that make more profitable loans available. Any pilots will be evaluated to ensure that the loans enhance people's ability to manage their finances responsibly.'***

Increasing numbers of social landlords are helping to provide access to affordable credit either directly or by supporting a local credit union or community development finance institution (CDFI). The survey data presented in this report shows that 13 landlords (out of a sample of 49) were providing access to affordable credit to their residents, compared with none just 6 years ago.

A number of groups have undertaken research, the findings and recommendations of which reinforce each other and are useful for government, social landlords and others aiming to widen access to affordable credit. These are presented in boxes A, B and C.

<sup>22</sup>Co-operative Bank (2002) *Access to credit on a low income*. Jones, P.

<sup>23</sup>Co-operative Bank (2005) *Would you credit it?* Jones, P.

<sup>24</sup>Simon Williams, Director of Corporate Affairs at Co-operative Bank, January 2005

<sup>25</sup>JRF (2005) *Affordable Credit – the way forward*. Collard S and Kempson E.

## BOX A – COOPERATIVE BANK SPONSORED RESEARCH

In 2001, the Co-operative Bank published the research report *Access to Credit* on a Low Income<sup>22</sup> which revealed a world of low-income families in Liverpool struggling to make ends meet by borrowing from high-cost sources. Later research sponsored by the bank but involving Citizens Advice, credit unions, social landlords, money advice agencies and community organisations, had a national focus and the report *Would You Credit It?*<sup>23</sup> suggests that the issues in Liverpool are widespread throughout the UK.

Specifically, the research found that:

- personal contact is important for communicating advice and information;
- people learn more about financial services through personal experience and story-telling than through financial literacy training and printed materials;
- despite wide practical knowledge of terms and conditions of many forms of credit, many low-income consumers pay interest rates of 1,000 per cent or more because they are refused credit by high street banks;
- many on low incomes rely on other forms of finance such as pawnbrokers (with APRs of about 70 per cent) or Telebank, a catalogue offering furniture with an APR of more than 40 per cent;
- there was an awareness and acceptance of the high cost of accessing credit;
- the credit options for people on low incomes continue to be limited;
- 87 per cent of all survey respondents said they saved, 59 per cent regularly; and
- cash machines were increasingly important in low-income communities among people under 55 but older people found them difficult to use.

The Co-operative Bank responded to this research by saying

*'This report has convinced us to increase our efforts to further support and develop the credit union movement in the UK for the benefit of low-income groups.'*<sup>24</sup>

## BOX B – RESEARCH FROM THE JOSEPH ROWNTREE FOUNDATION

*Affordable Credit – the way forward*<sup>25</sup> indicates that up to 6.2 million people in the UK could potentially benefit from the wider availability of more affordable credit. The researchers believe that the two areas for development that would have the biggest and most immediate impact nationwide are:

- a system of guaranteed automated payments for repaying loans (through direct deductions from income or direct debits), which would reduce costs of administering loans; and
- further expansion of the discretionary Social Fund for the poorest people, and those on disability benefits with increases in the size of the budget being funded either from taxation or using capital provided by banks.

They require substantial investment but this could be met through a public-private partnership. There is also real potential for meeting need through not-for-profit lenders.

To quote from the conclusion to the report

*'Whatever shape it takes, some intervention is required to ensure that poor people have access to affordable credit. Left to its own devices, the commercial market will continue to move away from lending to the poorest people. Many of the proposals to tackle high-cost credit, while well-intentioned, could accelerate this process and leave poor people with even less choice and higher costs.'*

*'There is real potential for meeting need through not-for-profit lenders. The move towards larger, more professionally-run credit unions and the prospect of regional community-based loan schemes, run in partnership with commercial banks, seems particularly promising.'*

<sup>26</sup>National Consumer Council (2005) affordable credit, by policies.

<sup>27</sup>Treasury (2004) *Promoting financial inclusion*.

<sup>28</sup>Treasury (2005) Community investment tax relief consultation.

## BOX C – RESEARCH FOR THE NATIONAL CONSUMER COUNCIL

This research<sup>26</sup> by policis, published in July 2005, showed that:

- many low-income consumers spend a high percentage of their limited budget on borrowing, risking a dangerous debt spiral;
- low-income consumers need credit, but the mainstream credit market is inappropriate for many people due to the design of products and the way in which they are delivered. This results in exclusion from the credit choices and interest rates that are available to more affluent borrowers;
- one in five consumers – 7.8 million people – are denied access to high street credit;
- loans for those on low incomes, such as home credit, are very expensive; and
- the Social Fund is failing many people.

It proposes that the government, led by the Financial Inclusion Taskforce should:

- recognise the features of credit that meet the needs of those on low incomes;
- recognise the potential for an expanded Social Fund loans scheme to become the building block for an effective affordable credit model;
- establish the real cost of delivery of the high-cost credit products currently used by low-income consumers, and determine whether it can be done more cheaply and efficiently; and
- explore the potential for a partnership of the public, private and voluntary sectors, to allow more cost-effective delivery of an affordable credit model.

This research report concludes

*'A solution to this enduring problem is needed. To be a realistic alternative to high-cost credit options, an affordable credit model would need to replicate some of the product and delivery features that appeal to home credit customers, and offer low interest rates.'*

The government is intending to increase access to affordable credit with a three-fold approach<sup>27</sup>:

- reforms to the Social Fund - see pages 17 and 18;
- seeking new models to reduce the cost of credit from private and third sector lenders (credit unions and community development finance institutions (CDFIs)); and
- supporting not-for-profit lenders which provide loan products designed to meet the needs of low-income groups.

In recognition of the key role community-based organisations such as credit unions and CDFIs are playing in some financial exclusion hotspots, the government is to map the location of credit unions and CDFIs. This is to ensure that support provided to these organisations is appropriately targeted.

The government is setting up a growth fund – an element of the Financial Inclusion Fund – for third sector lenders (subject

to any necessary state aid clearance from the European Commission). The growth fund will be available to boost the coverage, capacity and sustainability of affordable credit for financially-excluded people.

The government has asked the Financial Inclusion Taskforce to consider ways in which the capacity and skills of volunteers and staff within third sector lenders can be enhanced.

### COMMUNITY DEVELOPMENT FINANCE INSTITUTIONS (CDFIs)

CDFIs are not-for-profit organisations, providing lending and investment facilities at competitive rates in disadvantaged communities.

The FSA has been in discussion with the CDFI sector about establishing and maintaining an appropriate regulatory environment for the CDFI sector. It is considering the case for a proportionate regulatory framework for CDFIs which diversify into personal lending activities, from their core business of lending to small businesses including social enterprises.

Meanwhile, the government has consulted stakeholders within the CDFI sector and the investment community about extending the Community Investment Tax Relief to investments in CDFI's personal lending activities<sup>28</sup>.

<sup>29</sup>DTI (2004) *The effect of interest rate controls in other countries by policis.*

<sup>30</sup>Broadly, under Section 21 of the Financial Services and Markets Act 2000, a person who is not an authorised person (that is, a person authorised by the FSA to carry on regulated activities in the UK) must not, in the course of business, communicate (or cause a communication to be made by someone else of) an invitation or inducement to engage in investment activity.

<sup>31</sup>DTI Consumer and Competition Policy, Face-to-Face Debt Advice Project, 20 September 2005.

<sup>32</sup>ODPM (2005) *HomeBuy – expanding the opportunity to own: government's response.*

## Extortionate credit

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The government has also been under pressure to meet its manifesto commitment to tackle the issue of extortionate lending through legislative changes to the 1974 Consumer Credit Act. Lobby groups have suggested this could be achieved by introducing new powers to limit interest rates, control the cost of credit and prevent doorstep lenders cold-calling to protect people on low incomes. Counter arguments can be found in research by policis<sup>29</sup> which points to the possible harm that a ceiling might cause on the supply of credit, particularly since mainstream lenders do not provide for this market. They do not offer small loans repayable over a short period, excluding some low-income consumers from meeting their borrowing requirements and causing others to take out larger loans than they need or paying additional charges. Also, the percentage of consumers who admitted having borrowed from illegal lenders was twice as high in France and Germany, where there are interest rate ceilings, as in the UK.

The Consumer Credit Bill, in Parliament at the time of publishing, will replace the current test for extortionate credit with one based on the notion of unfairness. It introduces an Alternative Dispute Resolution system, assisting consumers to seek redress, and will lower the threshold for challenging credit agreements.

## Access to money advice

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The final area of focus in the Treasury's *Promoting financial inclusion* paper is access to money advice. The government recognises that building financial capability and providing access to money advice are of key importance in promoting financial inclusion.

As part of the two-year review of the Financial Services and Markets Act 2000 (FSMA), advice centres such as citizens' advice bureaux will be provided with an exemption from the FSMA financial promotion regime<sup>30</sup>. This avoids advice workers having to worry that they might be subject to the financial promotion restriction when assisting people with applications for financial products.

### TELEPHONE MONEY ADVICE

The government is working closely with representatives of the money advice sector and the credit industry to increase the capacity and effectiveness of telephone money advice. The following are underway:

- a new telephone gateway, to better publicise and co-ordinate calls to debt services;
- formal referral agreements between telephone and face-to-face service providers; and
- better signposting of services by government agencies (which may raise awareness of telephone advice).

It is hoped that this will reduce the pressure on existing face-to-face providers.

An allocation of £45m was made from the Financial Inclusion Fund, over two years, to facilitate the increase in free face-to-face debt advice. A competition to attract bids for grant support was launched by the Department of Trade and Industry (DTI) in September 2005<sup>31</sup>, the aim being to deliver an increase in the number of debt advisers, and in the number of hours of advice provided, within geographical areas and/or social groups characterised by high financial exclusion. Full bid applications were submitted by 20th January 2006.

## Saving schemes

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In 2001, the government had embraced the concept of asset accumulation as a means of extending opportunity to all young people, regardless of their families' circumstances. This led to development of the Child Trust Fund and the Saving Gateway scheme. The HomeBuy scheme<sup>32</sup> is also seen by government as a vehicle for those on low and modest incomes to build assets. However, because the primary function is to help individuals to own their home it is not covered as a saving product in this report.

<sup>33</sup>A DIES pilot aiming to bring together services relating to financial literacy, micro-enterprise and adult learning.

<sup>34</sup>University of Bristol (2003) *Evaluation of the CFLI and Saving Gateway Pilot Projects*. Kempson E, McKay S and Collard S.

<sup>35</sup>ECOTEC Research and Consulting Ltd (2005) *Evaluation of the Community Finance and Learning Initiative and Saving Gateway pilots - lessons learned*.

In 2002, the Treasury launched a Saving Gateway pilot in five areas of England. This was a savings scheme with a financial incentive to save. The purpose of the pilot was to test the practical details and find out what kind of structure and delivery mechanism would work best to persuade those on low incomes to get into the habit of saving.

In four of the five areas, the pilot Saving Gateway ran alongside the Community Finance Learning Initiative (CFLI)<sup>33</sup>. In three of the areas a housing association was directly involved.

In October 2003, Kempson, McKay and Collard evaluated the Saving Gateway pilot project for the Treasury<sup>34</sup>. They found that 1,478 accounts were opened between August 2002 and May 2003. Very few of these customers had been saving regularly before the Saving Gateway was introduced. Two-thirds said they intended to continue saving afterwards. By the end of the pilot, these savers had saved a total of about £475,000, with over half of savers achieving the maximum matched amount of £375. Some 70 per cent saved over £300.

The final evaluation of the Saving Gateway pilot confirmed that matching can double saving among low-income groups (average individual net savings increased from £150 to £300 over 18 months) and encourage genuinely new savers and new saving.

A second Saving Gateway pilot from March 2005 to December 2006, also being run by Halifax, will test alternative match rates, different monthly contribution limits, the effect of an initial endowment and the support of a wider range of community financial education bodies.

The Saving Gateway, when it is rolled out nationally, is a positive government initiative that social landlords can help to promote and make accessible to their residents. Some landlords are even showing signs of adding their own financial resources to help their residents save, sometimes for particular purposes such as to purchase a home.

David Blunkett, then Minister for Work and Pensions, made it clear that in future the government would reduce the penalty on those with modest savings. In a speech on 5 July 2005, he announced that from April 2006, the threshold above which savings begin to reduce eligibility for Income Support, Jobseekers' Allowance, Housing Benefit and Council Tax Benefit will be raised from £3000

### SAVING GATEWAY

Saving Gateway is a scheme for people of working age in receipt of state benefits or in-work tax credits, which offers to match individuals' savings up to a limit. With a Saving Gateway account, savers have access to their own savings at any time, but not to the government match. Any savings withdrawn are not eligible for matching unless they are paid in again during the lifetime of the account. Savers have access to the government match when the pilot account matures after 18 months.

to £6000 and the upper capital thresholds for Income Support and Jobseekers' Allowance will increase from £8,000 to £16,000.

***'We are committed to ensuring that the benefit system encourages households to save appropriately – and particularly those on lower incomes.'***

## Financial Literacy

The CFLI pilots were run by the Department for Education and Skills and set out to test the delivery of services aimed at tackling financial exclusion in deprived communities. Pilots were established in nine areas, from 12 organisations, and ran for almost two years.

A number of providers of social housing were involved in the pilots and others can draw on the evaluation of the CFLI pilots<sup>35</sup> to understand their potential role and learn lessons. Evidence suggests that:

- dedicated support in deprived communities can help to improve levels of education and training and provide support for financial issues such as money management and access to financial services;

- embedding these activities in organisations that have a high profile in a local community and are trusted by the population and regarded as credible – such as social housing landlords – is essential;
- an holistic service works best, coupled with a local, visible and credible public presence;
- potential beneficiaries must find the learning and information services easy to reach to ensure take up of provision. Providing an incentive is useful as is disguising the real aim of the financial learning or information sessions;
- workers need to be part of a community but somehow distanced from it - to be seen as 'objective professionals';
- building strong relationships with a range of local community and voluntary sector groups is essential to provide a pathway to potential beneficiaries, and take time to overcome inter-organisational barriers to build credibility and trust;
- finding, coaxing and retaining beneficiaries is both time and labour intensive, and thus pays most dividends among the most vulnerable target groups; and
- approaches will vary between areas so as to respond most effectively to the needs of the local community.

The FSA has a statutory duty to promote public understanding of the financial system. In August 2003, the FSA had identified a pressing need to foster financial literacy, as the gap between people's long-term needs and their savings widens. It said that consumers are most vulnerable where they lack the basic financial knowledge to plan for their future both in work and in retirement<sup>36</sup>. In 2004, it set up various working groups to draw up plans for action on this. It is also finding financial resources for implementation.

The FSA will be introducing a financial planning health check to help consumers resolve money dilemmas. It is backing up this initiative with a consumer education campaign, including consumer alerts, leaflets available from post offices, press activity and joint campaigns with organisations such as citizens' advice bureaux. Again, this is something that social landlords might be able to promote to their residents;

The FSA is also in discussion with financial firms, the government, trade associations and consumer bodies, such as Citizens Advice, in an attempt to overcome widespread ignorance of personal financial issues. The outcome will be a strategy to take forward consumer education, information and generic financial advice.

### **The Housing Corporation Money Access Programme**

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In November 2005, the Housing Corporation launched its Money Access Programme. It aims to help housing associations and other social landlords do more to tackle financial exclusion through:

- highlighting good practice initiatives across the sector;
- promoting the business case of financial inclusion work;
- developing a financial inclusion toolkit;
- raising awareness of the £120 million Financial Inclusion Fund set up by the Treasury to support initiatives to tackle financial exclusion; and
- running a series of events on tackling financial exclusion for social landlords.

<sup>37</sup>CIH and Shelter (2005)  
*HomeSave: increasing choices for tenants to own assets*

<sup>38</sup>SAFE (Services Against Financial Exclusion) at Toynbee Hall has been set up to provide practical services to increase financial capability and promote financial inclusion.

<sup>39</sup>Resolution Life is a specialist investor in life insurance funds that has now closed to new business.

## Pathway to financial inclusion

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The National Housing Federation and Debt on your Doorstep has launched a campaign called Pathway to financial inclusion. They are asking government and high street banks to provide a realistic alternative to doorstep lenders. Specifically they are asking for government to explore legislation that will require banks to provide accounts that are accessible to everyone and to set a fair ceiling on the interest rates charged by home credit companies.

## HomeSave – an initiative from CIH and Shelter

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In June 2005, the CIH and Shelter launched HomeSave: increasing choices for tenants to own assets<sup>37</sup>. The HomeSave proposal has a number of elements each of which needs further development. When taken together, the overall purpose of these elements of HomeSave is to assist residents of social housing wherever they are at financially to improve their money management skills. It includes the provision of a small amount of credit for individuals struggling with cash flow problems, incentives to open a bank account and to seek money advice and encouragement for individuals to acquire a habit of saving – all of which will prepare individuals for home purchase for those that have this aspiration. It also includes a proposal for the development of a 'housing investment account' that would allow individuals to invest small sums in housing while remaining as tenants.

## Services Against Financial Exclusion (SAFE)

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SAFE<sup>38</sup> aims to establish a UK-wide Financial Inclusion Forum to support and bring cohesion to financial inclusion work. It has a clear strategy for working with partner organisations in order to engage other providers in the financial inclusion agenda as well as to widen the impact of its work. Its four main streams of work are:

- financial education;
- a debt support programme;
- improved access to financial services (basic bank accounts); and
- an incentivised savings programme (one of the Saving Gateway pilots – see page 23).

## Resolution life

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The Resolution Foundation is a new charitable trust launched by Clive Cowdery, founder of Resolution Life<sup>39</sup>, in October 2005. The purpose of the Foundation is to pave the way for the provision of financial advice to average and below-average earners. It will carry out research into how best to tackle the gap in financial advice that exists for the eight million people who earn over £10,000 a year – the point at which they become independent of state support – and £22,060 a year, the national average wage. It will develop concrete proposals for a national financial advice network and a business plan for it.

<sup>40</sup>Scottish Executive (2005) *Financial Inclusion Action Plan*.

<sup>41</sup>Hillcrest, Gowrie and Grampian Housing Associations with The Royal Bank of Scotland and Communities Scotland (2004) *A feasibility study into the application of a community banking initiative model for housing association tenants in the North and North-East of Scotland* by Market Research UK Ltd

## Financial inclusion plans in Scotland

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The Scottish Executive has published a comprehensive Financial Inclusion Action Plan<sup>40</sup> as part of its *Closing the Opportunity Gap* approach to tackling poverty. To facilitate aspects of this plan, the executive is making available £5m per annum from April 2006. This new money will be allocated mainly to support financial inclusion in areas with the greatest current problems. Some resources will continue to be available nationally for more widespread initiatives and innovative approaches.

The action plan sees social landlords providing some advice or support with financial inclusion themselves or in partnership with others. They may also have a signposting role to others who can provide expert help. This part of the action plan was influenced by the results of a research study commissioned by three housing associations in the north and north-east of Scotland in 2004. The study was to investigate:

- demand among tenants for a tenant-based savings and loans scheme;
- the feasibility of implementing such a scheme; and
- potential areas of conflict/ joint working with existing projects such as credit unions.

It is important to note that the tenants of the housing associations concerned are a fairly cohesive and stable population located in rural, semi-rural and urban areas. There are no concentrations in areas of high deprivation.

A study report published in November 2004<sup>41</sup> provides a fair degree of support for the associations as landlords to become more actively involved in financial service provision. When tenants were asked if they thought their landlord should be involved in supporting services provided by a local community banking initiative, the services with the highest levels of support were:

- providing insurance (45 per cent);
- giving advice on money issues/services (43 per cent); and
- providing application forms (31 per cent).

The report suggested that any proposed community banking/financial services initiative involving the associations should be focused on 'signposting' or providing a 'gateway' to services rather than them being the direct provider.

A service that helps point the associations' tenants to the best options for advice and products now, and in the future, would seem to be the best suited to meeting their identified priorities for items such as insurance provision, savings plans and mortgages.

The report concluded that what is required is a cross-cutting initiative drawing upon the capacities and strengths of each association (trust and credibility), delivered through a new arms length organisation and focusing on all tenant financial needs and aspirations. The new organisation would counter any perception from tenants that the landlord has an influence on and can acquire information on personal financial matters. It is important that any organisation providing money advice has to be seen to be independent and impartial.

## Credit unions in Wales

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The Welsh Assembly initiated a credit union national project in 2001, which delivered a trebling of credit union membership over three years. The Wales Co-operative Centre, Coalfields Regeneration Trust and local credit unions have also engaged in a Debt Redemption and Money Advice scheme to tackle over-indebtedness in disadvantaged areas.

## 5 CASE STUDIES: SOCIAL LANDLORDS AND FINANCIAL INCLUSION

The eleven case studies provide a sample of the range of financial inclusion initiatives in which social landlords are involved. They are based on telephone conversations with key personnel involved in delivering the organisation's financial inclusion work, together with information from written materials where this was available. Five of the case study landlords were featured in the original 2003 report, and were revisited to capture new developments and further lessons learned. The remainder were approached following a survey carried out, as part of this report, of the 198 largest housing associations in England.

In addition to the case studies and to the survey, the subject of financial inclusion was discussed with another ten social landlords who had shown a particular interest in advancing their financial inclusion work (only two of these are featured in the case studies). While the discussions are not set out in detail, they reinforced the survey findings as well as providing some helpful background into the client group and what sort of approaches might work best.

### Summary of the case studies

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All the case study landlords recognise the importance of tackling financial exclusion among their residents. Reducing rent arrears levels is not the only reason why landlords make an effort; providing individuals with access to mainstream banking services is seen as an important step towards social as well as financial inclusion and is viewed as an integral part of neighbourhood regeneration, an area in which social housing providers are increasingly taking a lead. Many landlords also feel that they have a 'moral' obligation to tackle financial exclusion even if there are not any immediate benefits for the landlord. Enhancing the quality of residents' life was repeatedly cited as the main driver for taking action.

There are certain core activities in which most of the case study landlords are engaged. These are:

- welfare rights and benefits advice as part of an income maximisation strategy;
- setting up links with local credit unions;
- referrals to specialist agencies such as citizens' advice bureaux for debt and money advice;
- addressing fuel poverty through energy efficiency measures; and
- offering low-cost contents insurance.

The degree of involvement in such initiatives varies. For instance, some have been instrumental in developing local credit unions by providing funding and grants. Others see themselves more as 'enablers', signposting residents to relevant agencies or helping to access a specific service. Although almost all of the featured landlords offer contents insurance, only one organisation reported a satisfactory take up rate, the difficulty being convincing residents of the importance of having insurance when there is not an instant benefit attached to it. However, landlords are looking for ways to promote insurance more effectively in the future.

Some innovative work is being carried out which far exceeds the signposting and enabling role. For instance, 'CHANGE', a Community Development Finance Institution (CDFI) providing low-cost loans was set up by a partnership of housing associations. Derby Homes residents benefit from a comprehensive in-house money and debt advisory service. Cambridge Housing Society works in partnership with Cambridge Building Society to provide residents with access to low-cost loans and residents also have the opportunity to receive one-to-one advice in their own homes. All case study landlords place an emphasis on working in partnership to play to organisations' strengths

and maximise the impact of individual financial inclusion activities. Referrals to specialist advice agencies or close links with local credit unions are the most common arrangements. Generic benefit or welfare rights advice on the other hand is mostly delivered in-house.

One of the case studies is taking a very new and specific approach that recognises tenants' aspiration to own their home and helps them to develop the financial and other skills needed to take on such a responsibility. Notting Hill Housing has also developed its own low cost home ownership product and helps tenants through the home buying process. Gearing the 'higher level' financial inclusion activities to the needs of aspirant home ownership could, arguably, have greater success. With the advent of the new HomeBuy scheme which allows housing providers to reinvest the capital receipts in new housing, there is likely to be an increase in this type of activity.

Three of the landlords took part in the Community Learning Finance Initiative (CFLI) pilots – to provide financial literacy and awareness training to individuals who found themselves 'excluded' from financial mainstream services. Impact Housing Association, LHA and Broomleigh Housing Association each reported having difficulties in recruiting tenants for formal 'classroom-based' courses. The issue of not wanting to disclose their personal financial circumstances in front of a group of 'strangers' was repeatedly cited as the main barrier to tenants participating. Other landlords partly blamed the failure to engage with the community at an early stage in the process as the reason for not gaining support for this initiative.

Despite the perceived difficulties in offering financial literacy training landlords recognise the importance of and need for initiatives of this kind. High Weald Housing Association and Richmond Housing Partnership are currently delivering financial literacy and awareness training, both in response to a clear demand from residents. This is an important lesson not just for initiatives with an educational focus but for financial inclusion work more generally. It must be rooted in good landlord and tenant relations and landlords need to nurture a 'culture of participation' in order to maximise the impact of any initiative.

Most of the case study landlords have been involved for some time in initiatives that focus on income maximisation as part of an arrears recovery strategy. Providing or getting involved in more specialist services such as developing CDFIs or other projects enabling residents to access low-cost loans is a more recent occurrence which coincided with the increased emphasis that government is giving to financial inclusion, the introduction of the CFLI and Saving Gateway pilots in 2002 and more recently with the announcement of a £120 m Financial Inclusion Fund. The exception among the case study landlords is Cambridge Housing Society which has pioneered a scheme with a high street lender in providing low-cost loans. The CFLI and Saving Gateway pilots were useful to test the waters and participating landlords have since moved on in their thinking and adapted their approaches as a result. Impact Housing Association, for example, developed a user friendly trivial pursuit-style board game to address issues of financial literacy among young people while LHA carried out research among its tenants to find out what kind of financial services they would like to see on offer.

Money matters are a delicate issue and most people are not comfortable disclosing their personal financial situation, let alone admitting that there is a 'money problem'. Not surprisingly, there is evidence that tenants are reluctant to share their financial situation with other people, including their landlord, although there are mixed views on this among the case study landlords. Trust is not an issue when delivering some services, such as those focusing on income maximisation. In other instances in which personal details might be discussed, landlords usually address this by employing a facilitator, adviser or refer to a third party, rather than providing financial inclusion services directly. Sometimes landlords provide these services in-house but separate this work from the housing management side of the business. The responsibility for financial inclusion often rests with the regeneration or community investment team and personal information is not shared with other housing staff unless permission is given by the tenant.

Those landlords that do not consider trust to be a problem for their residents tend to be the ones that are strong on resident and community involvement. Trust cannot be earned overnight; it takes time to develop. The importance of involving tenants in the planning and delivery of financial inclusion initiatives cannot be overemphasised as a pre-condition for any effective scheme.

An issue which has been mentioned repeatedly is that of giving tenants some sort of incentive to persuade them to take up what is on offer. Suggestions were made to give tenants a set amount to help them kick-start saving as well as matching savings similar to the Saving Gateway scheme. Landlords would like to see government provide extra resources for this.

Discussion with landlords further revealed that it is important to offer money advice services at an early stage rather than to wait until rent arrears are out of control. Rent arrears are often not the only debts an individual is struggling with and are usually an indicator of multiple debts. Measures to prevent debt building up in the first place would have benefits for both landlords and their residents and should be encouraged. In particular, debt and money advice which equips individuals with the knowledge needed to make informed decisions about their personal finances and would help them to avoid falling into debt, could be offered at the point of signing up for a tenancy.

The case studies are intended to give a brief overview rather than in-depth analysis. There are many more examples of good work being carried out by landlords that could have been included.

## CASE STUDY LANDLORDS

### IMPACT HOUSING ASSOCIATION

Based in Cumbria, providing homes for nearly 3,000 households

### LONDON & QUADRANT HOUSING TRUST

Operates in 24 London Boroughs and 37 District Councils across England, managing approximately 43,000 properties.

### HIGH WEALD HOUSING ASSOCIATION

Manages around 5,500 properties in the Kent, Sussex and Surrey area. High Weald is part of the Town and Country Group.

### HYDE HOUSING ASSOCIATION

Part of the Hyde Housing Group, which is one of the largest housing association groups working in London and the South East, providing housing and related support to over 75,000 people.

### SOVEREIGN HOUSING GROUP

The group owns and manages more than 15,000 homes in the south of England.

### RICHMOND HOUSING PARTNERSHIP

Established in 2000, the organisation owns and manages over 8,500 properties in Richmond and Hounslow.

### BROOMLEIGH HOUSING ASSOCIATION

Owns and manages approximately 15,000 homes across South London and North Kent. Broomleigh is part of the Affinity Housing Group.

### DERBY HOMES

An arms-length management organisation (ALMO) working closely with Derby Advice, the city council's financial inclusion delivery vehicle.

### LHA (formerly Leicester Housing Association)

Manages around 8,000 homes from offices in Leicester, Nottingham and Northampton.

### CAMBRIDGE HOUSING SOCIETY

Manages 1,700 homes and provides care and support for more than 350 people.

### NOTTING HILL HOUSING

Manage 19,000 homes housing nearly 50,000 people across London and the surrounding areas.

Impact Housing Association took part in the first CFLI and Saving Gateway pilots. The Saving Gateway – an incentive-based savings scheme that matches individual savings with government money of £1 for £1 up to a maximum of £375 (in the first pilot) – was very successful. It was particularly popular among the younger population. A total of 600 accounts were opened, which was significantly over target. About 90 per cent of individuals opening a Gateway account had no savings history at all and 60 per cent of Gateway account holders continued to save beyond the lifetime of the pilot. Impact has also been chosen to participate in the Saving Gateway 2 pilots. Early figures suggest that although the matched funding element has been reduced this time (£1 for £2), the take up in Cumbria and North Lancashire, where Impact operates, is the highest among all pilot areas.

The CFLI part of the pilot on the other hand could not duplicate the success of the Saving Gateway. Impact found that the educational focus of the initiative did not strike much of a chord with residents. It was thought that individuals would be more likely to be prepared to discuss information on a one-to-one basis than in a classroom setting.

Despite this, it was felt that there was still a need to tackle the issue of financial literacy among residents. This led to the development of a trivial pursuit-style board game *Financial Pursuits*, that mixes general knowledge with finance-specific questions. The chances of winning the game are greatly enhanced by working through the accompanying Basic Skills Agency CD-ROM *Money Go Round*. The game was piloted with 16-25 year old hostel residents, with positive results – there is some evidence that the financial awareness of those playing the game has increased. The board game was distributed to various social landlords on request as well as being used by Impact's in-house training section on various courses. Impact is now considering how the game might work in a family setting to address financial exclusion amongst both parents and their children at the same time.

Impact also took part in the DWP Direct Payment Initiative pilots. Dedicated fieldworkers were at hand to help residents open bank accounts (20,000 were opened, nationally). On the back of this initiative, Impact has developed a training course for social landlords and charities as part of the Direct Payment Initiative on how to advise residents on opening bank accounts. Training has been delivered to about 200 housing associations across England, Scotland and Wales with a training pack designed also to be a source of reference.

Impact also runs a successful home contents insurance scheme that serves around eight per cent of its tenants. According to the insurance company this represents an 'excellent' take up. Many Impact residents affected by the floods in Carlisle in early 2005 had been insured under this scheme, which proved to be a powerful lesson for those residents not insured. In the light of this event, Impact is determined to develop and promote this scheme further.

There are a number of other financial inclusion initiatives currently under development, including:

- developing a rural credit union, accessible by electronic means only;
- delivering financial inclusion training for asylum seekers and refugees; and,
- developing new innovative forms of debt advice.

<sup>42</sup>These are: Affinity Housing Group, Circle Anglia, East Thames Group, Family Housing Group, Gallions, Genesis Housing Group (incorporating Springboard Housing), Horizon Housing Group, Hyde Housing Group, London & Quadrant Housing Trust, Metropolitan Housing Trust, Mosaic Housing, Orbit Bexley, Southern Housing Group, Threshold Housing and Support and Wandle Housing Association.

## **London & Quadrant Housing Trust**

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London & Quadrant is fully committed to its financial inclusion work. It delivers advice and support services through CHANGE, a pan-London CDFI for which it acts as lead partner. CHANGE is a division of London & Quadrant Group and was initially launched in 2003 with support from Family Housing Association, Hyde Housing Group and Metropolitan Housing Trust. Its objective is to help reduce the financial exclusion of residents by improving access to financial services, and providing information and advice. This support can help residents make informed decisions about their finances and manage their money more effectively.

CHANGE is now supported by 15 London housing associations<sup>42</sup>. Research carried out by the community finance team at Salford University revealed high levels of financial exclusion among a representative sample of residents across London. The partner organisations manage around 180,000 homes between them so CHANGE has the capacity to make a positive contribution to the quality of life for many residents.

Since 2003 the main focus has been on laying the foundations for CHANGE to prove it can deliver valuable services across its customer base. This has been achieved through a range of pilot schemes, from which important lessons have been learned. In Edmonton, for example, CHANGE facilitated a number of short financial literacy training courses for residents which once again suggested that formal classroom-based courses are not particularly popular as a means of raising knowledge levels.

CHANGE is now exploring new ways of engaging tenants in financial literacy training. They are setting up a training programme for housing association frontline staff to equip them with the skills to deliver financial capability / literacy training to residents. Starting in April 2006, 25 staff will attend a 13 week course leading to the Certificate in Adult Learning and Support. If successful, the programme will be extended in future.

A lending service for micro businesses and a grant scheme to market test business ideas has also been piloted over the past two years in Waltham Forest and is due to run until September 2006.

CHANGE has been working with the Department of Work and Pensions (DWP) to provide direct payment support by assisting residents to open suitable bank accounts. The Change Benefits and Banking Project involves ten of the partner organisations and will run until February 2006.

In early 2006, CHANGE plans to start an affordable credit pilot aimed at reducing the reliance of many social housing tenants on extortionate credit provided by doorstep lenders and loan sharks. Residents of the partner organisations will be able to borrow up to a maximum of £2,500. At the same time (potential) borrowers will receive basic money management training and if necessary help with rescheduling debts. The pilots will be targeting areas that show high levels of financial exclusion, debt and doorstep lending activity.

## **High Weald Housing Association**

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High Weald Housing Association's core financial inclusion activities centre around income maximisation, including benefits advice and promoting the take up of benefits. As well as one-to-one advice being available residents are able to carry out self-assessment of benefit entitlement using an online self-service calculator that provides instant answers. This service is particularly useful in cases where there is a dispute over certain benefit entitlements, as it helps claimants to argue their case using evidence generated by the self-calculator. Residents can access this service at a local resource centre.

The association is part of a steering group, working on the development of West Kent Savers Club – an intermediate step towards a fully-fledged credit union. High Weald has offered to make the tenants' resource centre available for the club to undertake its administration.

High Weald is also involved in initiatives that have an educational focus. Residents were initially consulted on their interest in literacy training, but it became clear that numeracy was more of an issue. This led High Weald to approach the local adult education college with a view to delivering some training in the community. The result is a 6-8 week course called *Brush up your maths*, in which eight residents are taking part. The course will help participants to be better prepared for everyday situations for which numeracy skills are required.

A course with an explicit financial literacy / awareness focus is scheduled to go ahead in February 2006 and will be run by West Kent College. *Money Matters* is centred around budgeting and how to manage finances better. A number of residents have already committed themselves to take part. This is quite different from the experience of other landlords who could not convince tenants of the merits of a 'classroom-based' course. The difference here might be that in this instance the residents themselves requested some form of financial literacy training. It is the policy of High Weald to actively encourage tenants to raise their training and learning needs with housing managers. Budgeting and financial skills were among those raised repeatedly by a number of tenants.

### **Hyde Housing Association**

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Hyde Housing Association is involved in a range of financial inclusion initiatives in partnership with a number of organisations including CHANGE.

The residents' magazine carries regular articles that promote and signpost residents to CHANGE services as well as occasional articles on other money-related topics, such as benefits or tax credits.

Hyde is an investment partner in South Coast Money Line, a CDFI that provides low-cost loans to individuals and businesses in the Portsmouth and Southampton area. The aim is to give those rejected by mainstream lenders access to affordable credit without the need to resort to doorstep lenders. Since its launch in 2000, South Coast Money Line has provided around 1,366 loans with a combined value of £1.1m. Around half of the loans have been to social housing tenants.

Hyde also has close links with three local credit unions. Soon after coming together to examine how they could work in partnership, they started to encourage young people to become involved in credit union work. Courses were held for those who were interested in becoming a credit union collector, a spin-off being that it helped to develop young people's financial awareness and got them into the habit of saving. Many of their parents also became members of one of the credit unions. The success of the scheme laid the foundation for Hyde's ongoing involvement in financial inclusion.

Another project in its early stages is the provision of in-house money / debt advice aimed specifically at helping those tenants at risk of being evicted. Hyde is also looking for new ways to address fuel poverty and has plans to set up a separate social enterprise to bulk purchase fuel and pass on savings made to residents.

Hyde is looking to further its financial inclusion work in Brighton and Kent, by mapping out existing initiatives and finding suitable partners.

### **Sovereign Housing Group**

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Sovereign Housing Group's financial inclusion work is focused on the reduction and recovery of rent arrears. They recognise that rent arrears are often not the only debts an individual is struggling with and thus cannot be tackled in isolation. Every effort is made to recover outstanding rent, while at the same time looking at an individual's money problems in their entirety. Sovereign sees financial inclusion work as an essential part of income management.

The responsibility for this work lies within the rent service section. The team's role is to prevent arrears spiralling out of control and help individuals get to grips with their money problems. The rent service officer looks at all debts in order to determine a realistic repayment plan. Officers also offer tenants some debt and money advice as part of this process. A comprehensive booklet produced by Sovereign called *Managing Your Money* supports this advice. It contains information on working out a budget to explain money problems to creditors; on establishing priority debts; on working out an affordable repayment plan (including sample letters to creditors) and on the action creditors can take to recoup outstanding debts. More serious cases will be referred to the local Citizens Advice Bureau, which receives funding and grants from Sovereign. Referrals are also made where a tenant is reluctant to share his or her financial situation or prefers to receive independent advice.

As well as taking action once a tenant is in arrears, the rent service team is keen to prevent arrears occurring in the first place. This proactive approach is summed up in Sovereign's comprehensive *Sustainable Tenancies Policy*. At the pre-tenancy visit for instance, it will be established how a potential tenant is going to manage paying his or her rent. This enables housing staff to pick up any financial difficulties at an early stage and intervene in the form of advice or signposting to a relevant agency. The settling-in visit, a couple of weeks into the tenancy, provides another opportunity for housing staff to address any money difficulties encountered.

Sovereign is also part of a group of housing associations supporting the development of the Devon Community Banking Partnership. The idea is to provide a portal for those on a low income to get help and support with all aspects of finance by bringing together the various players in community finance such as CDFIs and credit unions alongside banks and building societies. The partnership arrangements make it possible to deliver services in a much more cost-effective way. The scheme is in its early stages and a co-ordinator, partly funded by the partner organisations, is working to get the various agencies committed to the initiative.

A comprehensive home insulation programme is currently underway to reduce fuel costs and new tenants can also benefit from cheaper electricity costs, as Sovereign switches accounts to the 'cheapest' provider once a property has become vacant.

### **Richmond Housing Partnership**

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Richmond Housing Partnership is involved in a number of schemes with a particular focus on financial literacy and awareness. Co-ordinating the financial inclusion work is the joint responsibility of the debt recovery and community development team, a partnership that has been extremely rewarding and informative for those involved. It has resulted in a greater understanding of resident need and confidence in how the teams compliment one another.

A financial awareness course will be starting in February 2006. The course take place at the local community centre and has generated a considerable amount of interest among tenants. Residents of the Hounslow Heath estate, which has a particularly young population, seem to be particularly keen to participate. Although the incident of household debt is low in that area, many residents expressed the wish to receive some help with budgeting. A community worker who lives on the estate and is based at the centre provides active liaison with residents, encouraging them to get involved in neighbourhood matters. She has built up good relationships with residents and is trusted by them.

Richmond Housing also has close working relationships with the Citizens Advice Bureau, encouraging tenants to make use of this free and independent service when needed. To make this service more accessible, regular surgeries are held on various estates.

## Broomleigh Housing Association

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Broomleigh Housing Association is one of the case study landlords featured in the original report. The organisation took part in a CFLI pilot which is hoped to deliver in partnership with the local Citizens' Advice Bureau, Sure Start, Bromley College and ACTS credit union.

The whole project suffered from significant teething problems and got off to a late start. Despite all efforts, it was not well-received by local residents and it became clear that building trust is the precursor for any effective financial inclusion initiative. Endorsement from resident representatives can help break down barriers between landlord and tenants. Broomleigh conceded that the CFLI did not get the profile necessary for a project on such a scale and it suffered when some of the partner organisations pulled out.

A scheme to promote the take up of bank accounts proved to be more successful. The Woolwich bank was chosen as the preferred partner and the target was to set up 150 'Open Plan' accounts before the CFLI pilot came to an end in 2004. A total of 110 accounts were actually opened.

Broomleigh employs a dedicated welfare rights officer to carry out its in-house financial inclusion work that is mainly focused on income maximisation – benefits and tax credits advice. Residents with serious money problems are referred to the local Citizens' Advice Bureau which Broomleigh supports with grant funding. More recently, links have been established with CHANGE (see London and Quadrant case study) and so far 104 tenants have been referred to receive help with opening a bank account under the CHANGE Benefits and Banking Project. A major drive is also under way to promote the benefits of paying by direct debit for both rent and other outgoings such as utility bills. Broomleigh is concerned that any future decision to pay housing benefit directly into claimants' bank accounts could have a negative impact on rental income. Setting up a direct debit scheme would help to address this issue.

## Derby Homes

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Derby Homes (the ALMO) has forged close links with Derby Advice which was established in 2003. Derby Homes' residents are the main beneficiaries of the money advice part of the service offered by Derby Advice which also includes a Welfare Rights Service, Employment Rights Service and Home Energy Advice. A recent service level agreement between both agencies has formalised this partnership. In most cases, residents are referred to Derby Advice once they have come to the attention of housing staff because of rent arrears, although self-referrals are common. In 2004/05, there were a total of 912 referrals with the amount of debt dealt with approaching £1.1m mark. Alongside one-to-one advice, self-help material on dealing with money problems and a telephone helpline are also available.

Close links are also in place with Derby Loans, a CDFI providing affordable loans for those not able to access high street lenders. Several social landlords, including Derby Homes, were instrumental in setting up Derby Loans and continue to lend their financial support. Currently, there are three types of loans available: personal loans, micro-business loans and loans to support community groups. Borrowers do not need a savings history in order to access a loan, as they do to borrow from a credit union.

Many Derby Homes residents do not have bank accounts and Derby City Council is working with the Co-operative Bank to promote the take up of accounts as well as encouraging direct debit sign-ups.

Derby Advice is currently running a benefits take up campaign, specifically targeting areas in the city which are part of the Government's Neighbourhood Renewal Fund programme and that are well-known for their overall low levels of benefit take up. Derby Advice has also been actively involved in running training programmes on welfare rights and benefits issues for council and voluntary agencies staff. A total of 964 people attended such training in 2004/05 alone, with more training sessions being planned.

Residents owing money to either Derby Homes or to the city council are covered by the Fair Repayment Promise. It applies to individuals who experience difficulties clearing their debts. Under this code of practice, the debtor signs up to a 'realistic' repayment plan, based on his/her weekly disposable income. The Money Advice Service ensures benefits and tax credits are claimed by offering personal advice or issuing a self-help pack. The code specifies that no further action will be taken as long as the requirements of the repayment plan are met.

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## LHA

At the time *Breaking Free* was published (2003), LHA was taking part in the first round of CFLI pilots. This was a mixed experience. The envisaged workshop-type training sessions did not appeal to residents and it became clear that they would be reluctant to discuss their financial circumstances in front of fellow residents. This was not unique to LHA but occurred across all CFLI pilots, as acknowledged in the report *Evaluation of the Community Finance and Learning Initiative and Saving Gateway Pilots*<sup>43</sup>. Working with individuals on a one-to-one basis to help open bank accounts proved to be more successful and 95 tenants have opened a bank account.

The experience with the CFLI pilot led LHA to ask their residents what sort of measures activities tenants would find useful. The research showed that access to affordable credit and loans was most important to tenants and that a 'social enterprise model' might help to meet this demand. Leicester Moneyline, a not-for profit organisation, was developed in partnership with Leicester City Council and Leicester Money Advice. Moneyline provides affordable loans and saving facilities to low income groups for whom access to mainstream credit might not be available. Individuals will also be able to receive generic money advice and help with opening a bank account. A 'poor' credit history is not a hindrance to receiving a loan, as applications are assessed on current circumstances only. The service is initially aimed at people living in Leicester, although it is anticipated that Moneyline will eventually serve the whole of Leicestershire.

There are three different types of loans available: personal loans, home improvement loans for owner occupiers, and business loans for both new business start-ups and established businesses. Interest rates range from 12.7 per cent APR for a home improvement loan to 31.3 per cent APR for a personal loan, and are considerably lower than those charged by door-step lenders. The target for the first four years is to provide 3,500 personal loans, 600 home improvement loans and 220 business start-up loans.

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## Cambridge Housing Society

Cambridge Housing Society has been involved in financial inclusion work since 1996. It is an integral part of its community investment work which takes place under the banner of the New Horizons service and is underpinned by a community investment strategy. This long-term strategic outlook ensures that any likely changes to service funding are factored in, which in turn provides for greater consistency.

The main objective is to support individuals in becoming more financially secure as well as enabling them to plan and build for the future. Work centres around three objectives (i) maximising individuals' income, (ii) providing access to financial services and (iii) raising financial literacy and awareness.

Understanding the needs and aspirations of residents is achieved through a customer panel and the New Horizons Action Group. Services are delivered in people's own homes which helps generate a climate of mutual trust, where tenants are more confident to air their views.

Since 1997, Cambridge Housing Society has been delivering the pioneering New Horizons Saving and Loan Scheme – an initiative developed in partnership with Cambridge Building Society, a mainstream financial services provider. Loans are provided by the building society and carry an interest rate of 0.95 per cent above the Bank of England base rate. The scheme is based on a guarantee fund which is used to underwrite loans. Developed by the charity Homelessness International, Cambridge Housing Society was the first organisation to adapt the model to a British context. Residents can choose between two types of loans. The 'main loan' enables tenants to borrow up to four times the amount held in their individual New Horizons Saving account but not exceeding a maximum of £2,185. A so-called 'handy loan' of up to £165 requires no savings. With both loans, new residents need to wait three months before they become eligible. Individuals can borrow even if they are in rent arrears, but restrictions apply. Their arrears must not amount to more than three times the weekly rent and they must have kept to any agreed arrears repayment schedule for at least four months.

Cambridge Housing Society also offers welfare benefits and tax credit advice, low-cost contents insurance and provides access to basic bank and instant access savings accounts. Tenants can be referred to a local advice agency where they can receive advice on how to manage their personal finances more effectively. There are also plans to introduce an in-house debt advice service, depending on the outcome of a pilot which is currently underway.

Cambridge Housing Society also took part in the CFLI and Saving Gateway 1 pilots. The experience with the CFLI initiative was similar to that of the other case study landlords featured in this report: the group workshop-type delivery of financial literacy training did not generate much interest among tenants. Nevertheless, the scheme provided the organisation with useful insights into delivering its own financial inclusion initiatives. It reaffirmed that the one-to-one advisory service offered in people's own homes is best suited for this kind of work. The Saving Gateway on the other hand proved to be more successful, with over 200 residents doubling their savings under this scheme.

### **Notting Hill Housing**

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Notting Hill Housing has approached financial inclusion in a different way from the other case study landlords. It links financial inclusion closely to the homeownership agenda. Most people on lower incomes find it impossible to purchase a home in today's market as salaries do not correspond with the significant increase in housing prices that have taken place in recent years. At the same time, research has showed that around three quarters of their tenants would like to buy a home. Notting Hill believes that with the right support, many tenants would be capable of getting a foot on the property ladder and has developed a number of products to help lower income households both to get into the habit of saving and to purchase a share in their home. Starting early this year, Notting Hill will soon be running a series of pilots to market test these new products.

Home Options is a new advisory service designed to help tenants become home owners by providing the skills needed to make informed decisions about all aspects of personal finance as well as giving support during the actual home buying process. The scheme is aimed at tenants for whom home ownership was not an option in the past due to their financial circumstances. A detailed assessment of an individual's finances in the first instance will help to establish the viability of becoming a home owner. Participants are then encouraged to sign up to a tailored

action plan which sets out the necessary steps to achieve this goal. This includes help and advice with generic financial matters and budgeting. Initially fifty tenants will have the opportunity to take part in a 12 month pilot.

The Rent Plus scheme encourages tenants to make overpayments on their rents by at least £10 a week. A bonus of three weeks' additional payments will be paid by the landlords to those who have saved continuously over a period of 52 weeks. Tenants withdrawing money during this period will not be eligible for the end of year reward. All Rent Plus money will be held in a separate savings account with the interest generated being used to pay out the bonuses. On top of this, any Rent Plus saver who does not make use of the repair service and keeps their home in good condition will receive a further £300. The scheme provides an easy to access source of affordable credit whilst at the same time it fosters a saving culture and a repairs culture among lower income households.

Tenants are also encouraged to use their savings accumulated through the Rent Plus scheme towards purchasing a home. If they choose to do this, Notting Hill will top up any bonus already given with an extra 10 per cent. For those unable to afford the minimum 25 per cent share required under Social Homebuy, Notting Hill also offers its tenants the opportunity to buy a 10 per cent stake only.

## 6 SURVEY RESULTS

<sup>44</sup>Newcombe R, Cox A, Neuberger J, Whitehead C, 2002, *Partnerships for financial inclusion: housing associations and financial institutions*, Building Societies Association, London

Accompanying the case studies was a web-based survey of the 198 largest housing associations in England. The objective was to get a broader based view of the financial inclusion work of social landlords. The survey sample was chosen because earlier research<sup>44</sup> had shown that larger organisations are more advanced in addressing financial exclusion amongst their tenants.

Covering letters with instruction on how to access the on-line questionnaire were addressed to the Chief Executives of the respective organisations.

A total of 61 questionnaires were returned, including 12 partially completed survey forms, which are not included in the main survey analysis. The analysis is based on 49 returns, which amounts to a respond rate of around a quarter. The findings provide some helpful insights and give a flavour of landlords' involvement in addressing financial exclusion.

Forty three of the respondents stated that they are undertaking some kind of financial inclusion work with their tenants although it is reasonable to assume that those active in this area are more likely to respond to the survey. Those respondents who are currently not engaged in promoting financial inclusion nevertheless think that their organisation has got a role to play.

Table 6.1 shows the type of financial inclusion activities of the respondents. Benefits advice (including the promotion of benefits) and debt advice seem to be the most popular activities, closely followed by money advice and the provision of contents insurance.

TYPES OF ACTIVITIES	No. OF RESPONDENTS INVOLVED*
Financial literacy/awareness training	23
Money advice	37
Debt advice	39
Benefits advice	40
Promoting take up of welfare benefits	38
Providing information on opening a bank account	20
Links to Community Banking Partnerships	11
Providing access to affordable credit	17
Offering contents insurance	32
Addressing fuel poverty	28
Referrals	40

TABLE 6.1 TYPES OF FINANCIAL INCLUSION ACTIVITIES

\* Total number of respondents involved in financial inclusion initiatives is 43.

Overall, fewer respondents are involved in initiatives that help residents to access financial services.

All of the respondents active in this area provide more than one type of financial inclusion initiative, with more than half involved in four to seven initiatives. Debt / benefits advice and advice on benefit take-up / income maximisation are the most popular followed by addressing fuel poverty and the provision of contents insurance. Only four respondents are involved in three or less initiatives.

When asked about the rationale for getting involved in combating financial exclusion it becomes clear that there is a significant awareness of this issue.

*“We saw a correlation between financial and social exclusion. Many government reports stated that a large proportion of those facing financial exclusion were social housing tenants”. (survey respondent quote)*

Half of all respondents see financial inclusion activities as a key part of their arrears prevention work. However, this is not the only reason - the wider role of social landlords in creating sustainable communities for instance is repeatedly mentioned.

*“We are aware that our residents suffer from financial exclusion and see this as a part of our work in relation to building sustainable communities” (survey respondent quote)*

Social landlords see themselves more and more as community investment agencies with a wider role in neighbourhood regeneration, extending their traditional housing management role. The NHF’s ‘In Business for Neighbourhoods’ agenda has helped to promote this extended role

*“We believe that as housing people we take on a responsibility to take a proactive response in improving the quality of life .... Financial inclusion plays an increasingly important role in this”. (survey respondent quote)*

*“Addressing financial inclusion is vital when undertaking development or area based regeneration.” (Survey respondent quote)*

The length of involvement with a particular initiative is shown in Table 6.2. The majority of respondents have only fairly recently got involved. This is particularly the case with activities concerning money management and access to financial services. Those focusing on income maximisation have been established for longer. Several respondents for example indicated that they have been involved in welfare benefit advice for well over a decade. The same is the case with offering low cost contents insurance.

TYPES OF ACTIVITIES	No. OF YEARS INVOLVED*		
	0-2	3-5	6-9
Financial literacy/awareness training	17	5	1
Money advice	18	7	10
Debt advice	20	7	9
Benefits advice	12	8	12
Promoting take up of welfare benefits	11	9	9
Providing information on opening a bank account	12	5	3
Links to Community Banking Partnerships	7	4	0
Providing access to affordable credit	13	4	0
Offering contents insurance	6	10	9
Addressing fuel poverty	16	9	1

TABLE 6.2 LENGTH OF INVOLVEMENT BY ACTIVITY

PARTNER ORGANISATIONS	No. OF RESPONDENTS INVOLVED*
Credit Unions	23
CABx and other advice agencies	14
Community Development Finance Institutions	10
Community Banking Partnerships	11
Local authorities	4
Colleges	3
Social housing providers	4
Charities	2

TABLE 6.3 PARTNERSHIPS IN DELIVERING FINANCIAL INCLUSION INITIATIVES

\* Total no. of respondents to this section is 35.

Well over three quarters deliver their financial inclusion initiatives in partnership with one or more organisations. Table 6.3 gives an overview of the partner organisations involved. Over two thirds of respondents have established links with credit unions. Referrals to citizens' advice bureaux or other specialist advice agencies are also a common feature.

Around 30 per cent have links with community finance institutions other than credit unions. The nature of partnerships vary, with some respondents involved in funding and developing external service providers.

Almost all respondents promote other agencies' services and signpost tenants towards these if appropriate. Those organisations without partnership arrangements in place tend not to be involved in initiatives focusing on accessing financial services and products, with the exception of contents insurance.

Presently operational housing staff play an important role in delivering financial inclusion initiatives. On the whole there seems to be an equal split between using dedicated and generic housing staff, with dedicated staff being utilised more with regard to banking related services.



FIGURE 6.1 WHAT CONSTITUTES A 'SUCCESSFUL' FINANCIAL INCLUSION INITIATIVE?

When asked about what constitutes a 'successful' financial inclusion initiative, reduction of rent arrears and positive customer feedback scored highest. Although low rent arrear levels give to some extent an indication of tenants' financial situations it is by no means an accurate measure. It does not for example take into account that a sizeable proportion of rents are covered by housing benefit. Residents could have a 'clean' rent account but be still in financial difficulties.

The responses show that there is an equal split between hard / output and soft / outcome focused measures. This leads us to the question of how respondents measure the impact of their financial inclusion work, which will be considered next.

Measuring the impact of financial inclusion activities seems to be closely linked to the nature of individual activities. Some can be measured in terms of outputs, such as number of people advised, amount of benefits claimed or the number of bank accounts opened. Reducing arrears levels is repeatedly mentioned as way to measure the overall impact, as are general take up levels and referrals made to specialist advice agencies. Outcomes are mostly measured through resident satisfaction surveys, case studies and anecdotal evidence. There seems to be a need to develop some kind of evaluative framework to capture both outputs and outcomes more accurately and effectively, as a number of respondents conceded that they have difficulties measuring the overall impact of their initiatives.

INITIATIVES	PROPORTION OF RESPONDENTS INDICATING A GOOD/MODERATE TAKE UP
Money advice	75 %
Debt advice	78 %
Benefit advice	81 %
Promoting take up of benefits	80 %
Contents insurance	80 %
Referrals to other agencies	93 %

TABLE 6.4 INITIATIVES WITH A HIGH PROPORTION OF GOOD / MODERATE TAKE UP LEVELS

The majority of respondents indicated that overall take up rates for individual initiatives are good / moderate, although no definition of 'good / moderate' was provided. Those initiatives which scored a particularly high good / moderate take up rate are shown in Table 6.4. It shows that tenants accept being referred to receive further help with regard to financial issues. There is also an indication that take up levels, such as agreeing to see a money advisor, could be improved by giving tenants some sort of financial incentives. More landlords say they would put resources into promoting financial inclusion if there were also more direct incentives available for tenants.

In terms of funding, organisations draw on a mix of internal and external sources. Well over three quarters of respondents fund their initiatives internally through rental income. In most cases this is supplemented with small amounts of grant funding from various sources. Additional government funding in this area would be of particular help for organisations to develop their initiatives further.

## 7 CONCLUSIONS AND RECOMMENDATIONS

Government, working with various partners, has made significant progress over recent years in tackling financial exclusion:

- there are now upwards of 650 credit unions in Britain serving over 410,000 members;
- all major high street banks now offer a basic bank account and over 1 million have been opened;
- some positive changes have been made to the Social Fund to give greater consistency and transparency in access to loans;
- £120m has been made available through the Financial Inclusion Fund to increase access to affordable credit and provide more face-to-face debt advice;
- the Child Trust Fund has been launched and the Saving Gateway is being piloted – both of which encourage people to save for their future or their children's future; and
- increasing numbers of social landlords are getting involved in promoting financial inclusion and they are becoming more sophisticated in the methods they are employing.

There is, though, still a long way to go and in some ways the situation has become more difficult. This study has highlighted the following:

- credit unions that are widely supported by social landlords, are not able to offer some of the Treasury's key products, such as the Child Trust Fund;
- one in four people rejected from the Social Fund borrows from a doorstep lender or unlicensed loan shark;
- the average level of unsecured borrowing by families rose from £890 in 1995 to £2000 in 2000;
- there is still a lack of suitable financial products of all types, not just affordable credit, that are accessible to those who are excluded from mainstream banking services;
- there is very little protection from companies offering credit at extortionate rates for those who cannot access more affordable loans; and
- most free advice that is available is targeted at those who are in debt – there is insufficient advice available that is geared to preventing those at risk from building up serious debts and to promoting a habit of saving.

There are a number of areas that need to be developed further and the CIH is recommending action on four fronts. Taken together, they would support the government's efforts to deliver financial inclusion and help to reduce reliance on high cost credit options, including doorstep lenders and unlicensed loan sharks.

### **1. Develop more suitable financial products for people on low incomes**

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There are large gaps in the range of financial products for those on low incomes, and insufficient focus on what is really needed. One significant gap that has been identified is the need for small emergency loans that in mainstream banking would be available immediately through overdraft facilities. The Social Fund provides such loans interest-free, but its impact is severely limited in terms of the total amount of cash available through it, the rules for access, knowledge of its existence and repayment levels. Further reform is needed to make the Social Fund accessible to more people and to integrate it with asset-building programmes.

There is also a need for other types of product such as saving, pension and investment schemes for this client group, but more work is needed to identify the particular features that are required. Government support is then needed in the form of legislation, regulatory provision, tax incentives, etc to secure their development. Without the right spectrum of products in place and accessible to those who need them, it will not be possible for others – whether landlords, advisors or financial institutions – to tackle financial exclusion in a lasting way.

The banking industry does not encourage poor customers. Some social landlords are themselves, or in partnership with financial institutions, attempting to develop appropriate products to fill these gaps. Third sector banking organisations that have emerged locally (including credit unions, community development finance institutions (CDFIs) and others) may be able to supply some of these models. They are, though, facing uncertain prospects for achieving long-term sustainability of their operations. Also, CDFIs are only permitted to give loans – they are not able to take deposits and are therefore limited in the range of products they can provide. Landlords already take weekly payments from their residents and could potentially offer savings schemes at good rates of interest, with deposits taken alongside the rent.

For some, better availability of and accessibility to products, that are similar to mainstream products but with payment arrangements designed to meet the needs of people on low incomes, will help to bridge the knowledge gap, and help them make use of mainstream banking later on. For others, such products will serve as long-term financial management facilities.

#### RECOMMENDATIONS TO DEVELOP MORE SUITABLE FINANCIAL PRODUCTS

1. The Social Fund needs to be reformed to provide more individuals with better access to small amounts of affordable credit and to better integrate it with asset-building programmes.
2. Treasury should undertake research to identify products and features that would be suitable to people on low incomes.
3. Government must support the development of suitable products – including affordable loans and products that make it easy and worthwhile saving – once the important features have been identified, by changing legislation, regulations and taxation rules, for example.
4. Government should review the rules governing financial institutions, third sector lenders and housing providers to enable them to provide appropriate financial products for people on low incomes. Organisations that can administer relatively small deposits must be supported and encouraged to do so, and helped to bear the associated costs.

## 2. Adopt more preventative approaches

Much of the existing effort to combat financial exclusion is geared towards providing for those who are either already in debt or to helping increase sources of affordable credit. Most if not all social landlords refer residents who have serious arrears and are facing eviction for debt counselling. What are less common are proactive approaches that put the building blocks in place to raise financial knowledge, develop good money management skills and prevent people from falling into debt in the first place. Providing help to alleviate the most acute problems is essential, but is insufficient by itself to provide lasting solutions for many individuals.

Prevention is increasingly being seen as the way forward in many areas of public policy, such as homelessness and health management. Early interventions before the problem has got out of hand are usually most effective and are generally viewed as a good investment. In the case of financial inclusion, a lack of literacy and numeracy skills and a lack of knowledge about financial systems, compounded by insufficient access to free advice, are all a backdrop to the debt problem.

The DfES Community Learning Finance Initiative (CLFI) pilots to provide training in financial literacy were an attempt to fill this gap. These had limited success and the evidence suggests that the form they took was not optimal for the client group. However, a number of landlords have successfully developed ways of providing training and education in a form that is popular with young residents and families. The Financial Services Authority also has a part to play in delivering education in a meaningful way through its planning health check.

The Financial Inclusion Fund will support more debt advice, since there is still insufficient provision for this. However, more proactive and preventative money advice is also important and could be quite cost effective. Money advice will most likely include the following features:

- providing help with personal budgeting;
- giving an overview of the banking system;
- explaining the most common terms used;

- signposting to further information, help or advice; and
- providing information on saving options and how to access low-cost loans.

Landlords can play a part in helping their residents to avoid debt problems in a number of ways. For example, they can take a proactive approach to providing residents with some basic information, by training housing officers to give out this information as a matter of course. They can also make offers of money advice at the point when a household is signing up for a tenancy, and at an early stage in their arrears management protocols, when arrears levels are still manageable.

#### RECOMMENDATIONS TO ADOPT MORE PREVENTATIVE APPROACHES

5. The DfES should encourage innovative methods of 'teaching' individuals and families about financial matters in a range of settings, and should find ways of actively sharing good practice to a range of institutions – including, for example, schools and social landlords.
6. Treasury should consider how the availability of money advice across a wide range of money matters, as well as debt advice, can be increased.
7. Landlords should consider training their workforce to give out basic information and provide more opportunities for their residents to take up money advice – such as at tenancy sign-up and at an early stage when dealing with arrears.
8. The Financial Services Authority (FSA) should consider how landlords might be able to help them to deliver their consumer education campaign and the financial planning health check.

### 3. Provide incentives to encourage take up of financial services

One important barrier to financial inclusion is that some individuals, particularly those struggling financially, often have good reasons for not participating in mainstream banking systems. People who are in serious debt are usually anxious and often embarrassed and ashamed about their situation and will avoid engaging in conversation about their finances. If their debt profile is not known, they can be more flexible about where their debt lies at any one time, depending on the demands that are being made on them.

Social landlords are very familiar with this kind of difficulty in persuading individuals who are in any sort of financial difficulty to seek debt or money advice. Sometimes they are able to broach the subject in such a way as to avoid mentioning the possibility of debt problems, but this has limited success in the most difficult cases. In discussions with landlords it is clear that they believe that providing a financial incentive to residents who agree to seek advice could encourage more to do so. It could also help to switch the focus of initial discussions away from people's specific debt problems and onto more general consideration of opportunities to promote good money management and to find out more about what else is on offer.

Both landlords and government need to look at offering hard financial incentives that help to support their wider programme. This could be achieved through joining up existing programmes or through introducing new incentives. For example, government might consider:

- offering free face-to-face money advice to all applicants of basic banking facilities; and
- offering to match their regular savings if they (i) open a bank account, (ii) take up the offer of face-to-face money advice, and (iii) then open a savings account for regular deposits.

Landlords might consider (for example):

- offering a rent-free week to residents who agree to pay their rent by direct debit (with appropriate advice being made available);
- reinforcing rent payment and saving habits by allowing and rewarding over-payments of rent;
- arranging for a credit union to offer loans for small amounts to individuals who are not in rent arrears and who pay their rent by direct debit (in lieu of making regular savings before a loan can be taken out). This would be a positive way of discouraging individuals from thinking of their rent account as an interest-free overdraft, and instead to proactively arrange the loan; and
- offering incentives to individuals who agree to take up money advice.

## RECOMMENDATIONS TO PROVIDE INCENTIVES TO ENCOURAGE TAKE-UP

9. Treasury could look at offering hard financial incentives that encourage individuals to open a bank account and take up money advice, for example.
10. Landlords could consider providing their residents with a range of financial incentives that both support their own business objectives and encourage good money management habits.

### 4. Develop the landlord role

Social landlords are increasingly seeing it as their business to help their residents get access to financial products and services and to encourage them to develop good financial management skills. Some are also starting to adopt approaches that help residents develop the necessary financial management and other skills to prepare them for low cost home ownership. This report has highlighted some of the ways in which social landlords are building up their role in, and pioneering new ways of, promoting financial inclusion among their residents. While there is some excellent work going on, there is still a long way to go until the function is fully developed and taken on by all landlords as a mainstreamed activity.

In September 2005, Kevin Dodds, head of the child poverty branch of the Treasury, endorsed the objective of a greater landlord role saying that there was increasing scope for housing associations to get involved in promoting access to financial services or tax credit support, adding that tenants must also take responsibility for improving their situation. He suggested that government should take responsibility for picking up on new thinking and spreading good practice in this area

*'If you are going to make a difference, you really need to make sure that something that has worked in one area can be rolled out nationally.'*

The potential for social landlords to play an active role in improving the financial circumstances of their residents is not in doubt. Over 40 per cent of residents responding to a survey in Scotland said that they thought their landlord should be involved in supporting services provided by a local community banking initiative to provide advice on money issues/services.

Other research findings show that personal contact is important. In many cases, individuals will not find their own way to the bank or building society to open an account or savings scheme and there is a job to be done to persuade them that it's possible and worth doing. Housing officers working for social landlords already have a good deal of contact with their residents and can be trained to provide them with some basic information, to steer them towards other more comprehensive forms of advice and to encourage and assist them in, for example, opening a bank account. Issues of trust have been successfully handled by employing a third party to deal with residents' financial matters or by making a clear separation between financial services and landlord services. The best results are found where landlords have already developed a positive relationship with their residents and first seek to find out what their requirements are.

There are also a number of specific reasons for developing and expanding the roles of social landlords in this area:

- they have regular contact with their tenants throughout the tenancy, and even from before they take up their tenancy;
- they are, almost without exception, already involved in advising tenants in relation to debt problems as part of their rent arrears policies, and in some cases this extends to other activities that are broader in scope such as advice on maximising benefit take up;
- they have a moral obligation to actively help tenants to maintain their tenancies by paying their rent and not letting arrears build up to such a point that they may face eviction; and
- they have good business motives to actively help to improve the financial situation of their tenants (so that they are in a better position to pay their rent and any service charges on time). These business reasons will become more significant if the decision is made to pay housing benefit directly to tenants in the future;

- they have a large amount of information, collected over a long period, on the financial habits and behaviour of residents enabling them to evaluate their 'credit risk' more realistically (and generously) than banks; and
- they are the key providers of low-cost home ownership options (including HomeBuy) designed to help tenants and first-time buyers realise their aspirations to become home owners and to benefit from the asset. Tenants who are not eligible for such options, because of their financial circumstances, may benefit from forms of advice, savings or investment products (especially products designed for people on low incomes) whether or not they are eventually in a position to purchase a home. Landlords may be in a position to provide them or to guide them towards options provided by others.

#### RECOMMENDATIONS TO DEVELOP THE LANDLORD ROLE

11. More thorough evaluation is required to establish what works best and what does not work well when social landlords get involved in promoting financial inclusion. The Treasury, ODPM and the Housing Corporation (as well as other bodies such as the Chartered Institute of Housing and the National Housing Federation) should actively support efforts to measure success and should consider drawing up a framework for evaluating different approaches.
12. The Treasury should consider ways in which landlords might be able to support the various programmes to tackle financial inclusion, such as providing information on schemes like the Child Trust Fund and Saving Gateway. The best results are likely to be achieved by building their role into the delivery of these initiatives to residents.
13. ODPM and the Housing Corporation should prepare a 'financial inclusion toolkit' for social landlords containing a range of types of activity and advice on how to employ them to best effect. The toolkit should then be updated regularly as more experience is gained of what works.
14. Landlords should consider drawing up and implementing a strategy for improving the money management skills of their residents wherever they are at financially (not only those in rent arrears or with serious financial problems). In doing this they can draw on surveys that seek to find out the financial ambitions of their own residents and the sort of financial advice or products they require. They can also use their wider knowledge about what is popular with residents and what will work.
15. Landlords' strategies need to contain effective processes for reaching and communicating with residents. For example every new tenant should receive some information about the availability of welfare and money advice at the point of signing up for their tenancy, and should be encouraged to get a bank account if they do not have one.
16. Social landlords will need to establish or build on existing partnerships with others including banks, credit unions, money advice agencies, etc to develop effective and proactive solutions to tackle financial exclusion.
17. Clarity is needed regarding the types of information that landlords can legally and usefully give their residents. ODPM and the Housing Corporation should consider providing guidance to social landlords as well as clarity over the circumstances in which they would be best to refer residents to an independent money or financial adviser.
18. A programme of training is needed to equip housing officers or other employees with the necessary skills to (i) broach the subject of money management with residents in a way that will persuade them to take up money advice and consider other initiatives (ii) give information that they are legally permitted to and that is useful to residents, and (iii) refer residents to the relevant body for further advice.
19. Government should consider making some resources available to support landlords in expanding their financial inclusion work and making it more sophisticated.

Use of sophisticated banking facilities is now so widespread that those who aren't able to or don't know how to make use of them are at a significant disadvantage. People who don't have a bank account face higher costs when paying bills and cashing cheques and they have no recourse to a low cost overdraft facility that most now take for granted.

Many people who are financially excluded have a low income and are therefore more likely to be caught in a cycle of poverty and exclusion or to turn to high cost credit or illegal lenders for help resulting in greater financial strain and unmanageable debt. They are less likely to learn about the various financial products available and less likely to be in the habit of saving even small amounts of money.

Some progress has been made in recent years. One million basic bank accounts were opened between 1999 and 2004 and incentivised savings schemes in the form of the Child Trust Fund and Saving Gateway are starting to come on stream. Increasing numbers of social landlords are promoting financial inclusion among their residents and are becoming more sophisticated in their thinking and in the methods they are employing.

*"We are aware that our residents suffer from financial exclusion and see this as a part of our work in relation to building sustainable communities"* (social landlord)

There is, though, still some way to go and much more that can be done. Addressing financial inclusion requires widespread preventative approaches that deal with issues of accessibility of services, provide education about financial matters and seek to change behaviour, as well as providing help for those in greatest need.

Life After Debt builds on a previous report from the Chartered Institute of Housing called Breaking Free. It covers recent developments in thinking and action to tackle financial exclusion and puts forward four areas that require further development for the goal of financial inclusion to be met. There are 19 recommendations to Treasury and government departments, the Housing Corporation, the Financial Services Authority, social landlords and others who aspire to move towards this goal.



Chartered Institute of Housing  
Octavia House  
Westwood Way  
Coventry CV4 8JP  
Tel: 024 7685 1700  
Email: [policy@cih.org](mailto:policy@cih.org)  
Website: [www.cih.org](http://www.cih.org)



Housing Corporation  
149 Tottenham Court Road  
London W1T 7BN  
Tel: 0845 230 7000  
Email: [enquiries@housingcorp.gsx.gov.uk](mailto:enquiries@housingcorp.gsx.gov.uk)  
Website: [www.housingcorp.gov.uk](http://www.housingcorp.gov.uk)