RESEARCH INTO FINANCIAL EXCLUSION IN ROCHDALE – FINAL TECHNICAL REPORT

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EXECUTIVE SUMMARY

Introduction

This report presents the findings and recommendations of research conducted on the extent and nature of financial exclusion in Rochdale. The study was conducted at the request of Rochdale Metropolitan Borough Council.

Study context and methodology

The UK has one of the most developed banking sectors in the developed world. Today more than 95% of UK households have some kind of bank account, whilst more than 90% have a current account. Yet a sizable group of as many as 1.5 million UK low-income households are either totally excluded from accessing or live on the margins of mainstream financial institutions. This phenomenon is called financial exclusion and disproportionably affects vulnerable groups, such as lone parents, the elderly, ethnic minorities and disabled people.

Unable to access the services of the mainstream banking sector, financially excluded households may often have to resort to doorstep lenders. The high interest rates and often predatory lending practices of these types of lenders may leave the households at risk of over-indebtedness and further social exclusion. Also, the higher costs associated with managing a household budget on a cash-basis rather than through a bank account potentially reduce the disposable income of these households.

To analyse the extent and nature of this problem in Salford, we relied on a wide range of research tools:

- *Resident survey:* A survey was conducted with 301 households in some of the most deprived postcodes in Rochdale. The survey contained questions on the access and use of financial services, and on the socio-demographic characteristics of the households.
- *Stakeholder workshops:* Two workshops were held with key stakeholders
- *Stakeholder interviews:* Semi-structured face-to-face interviews were conducted with representatives from key stakeholder organisations

It is important to note that as the survey was conducted in some of the most deprived postcodes in Rochdale, it is expected that the nature and extent of financial exclusion will differ from the national context.

Banking and transaction services

Nationally, there has been considerable progress in expanding the access to banking and transaction services. The proportion of households without any form of account fell from 7% in both England and the region in 1999 to 3% in 2008. This is likely to be the result of the introduction of no-frill bank accounts as well as the move toward payment of benefits directly into bank accounts.

In Rochdale 17% of residents still do not have access to a basic bank account with lone parent and workless households being the least likely to hold a bank account. Only around 4% have experienced outright refusal suggesting non-ownership of accounts may be down to self-exclusion.

Around 14% of residents in Rochdale sometimes or always used charging cash machines suggesting a lack of non fee charging facilities. Households in Heywood and Pennines are particularly likely to use charging cash machines. However, only 4%

of residents had experienced an outright refusal in opening a bank account suggesting a small level of self-exclusion.

Savings and assets

Within Rochdale borough 60% of the respondents had no savings, compared with 28% nationally. Only 16% of the respondents saved regularly. Lone parents, people in rented accommodation, workless and disabled households were less likely to save. This is reflected nationally with only 40-41% of households from lower income groups having savings. Asian and pensioner households were more likely to save.

Affordable credit and sub-prime borrowing

Around 12% of the respondents reported having been excluded in the past two years. Seventeen percent of people interviewed admitted to having resorted to sub-prime borrowing but the actual figure is likely to be higher than this. Women, lone parent households and tenants were more likely to take out a loan and to borrow from sub-prime lenders. Asian households, pensioners and owner-occupiers were least likely to borrow.

Insurance

Around half of the respondents had Home Contents Insurance (HCI). Owner-occupants were more than twice as likely to have HCI relative to tenants. While 82% of owner-occupants were insured, only 34% of tenants were. The main reason for not having contents insurance was the cost, with 76% stating it was too expensive.

Over-indebtedness

Over-indebtedness is prevalent across the borough. From 2003 to 2009 landlord possession claims and orders in Rochdale fell by 25% and 20% respectively. In the same period, mortgage possession claims and orders rose by 60% and 132% respectively. The rise in mortgage claims is largely due to higher financing costs, falling affordability and rising unemployment. The fall in landlord repossessions may be explained by the more pro-active approach taken by landlords in avoiding evictions.

In terms of the survey results, 36% of the respondents had fallen behind on one or more bills in the last two years and 27% were currently behind on their payments. The most common reasons for being in arrears are insufficient income, ill health and unemployment. Fifteen percent of the sample interviewed expressed that they believed that problems with money management and debt have caused them difficulties in finding or keeping a job.

Fuel poverty

Thirty-eight percent of the respondents had experienced difficulties in paying fuel bills. Asian households, workless households and households with prepayment meters were most likely to report difficulties with paying fuel bills. Only 34% pay by direct debit, often the cheapest method of payment whilst 47% of the respondents paid using prepayment meters, usually the most expensive method of payment. This is concerning as increases in fuel prices have tended to be much steeper for prepayment meters.

Financial literacy and capability

Enabling households to choose the right financial products and manage their money better is a very important part of the financial inclusion agenda. Around 26% of the respondents believed they were very good at managing their money and budgeting with 37% thinking they were fairly good.

Three in four respondents thought their understanding of financial services was good with 25% saying it was very good, 47% stating it was fairly good and 18% saying it was average. However, 5% thought their knowledge was fairly poor and 4% stated it was very poor.

Groups and areas at risk of financial exclusion

We identified and examined six groups at risk of financial exclusion:

- *Lone parent households:* Least likely to be banked, to use direct debits, to save, to be insured and most likely to be in debt and to resort to sub-prime borrowing, this group was among the most excluded in the survey.
- *Workless households:* This group was also among the most excluded groups. The households in this group had limited access to banking and transaction services, were unlikely to save or have contents insurance, were likely to be in arrears and resorted to sub-prime borrowing to a greater extent than the sample overall.
- *Social housing tenants:* This group experienced high levels of exclusion. They were more likely to be in arrears and struggle with their fuel bills, and less likely to be banked and save.
- *Private tenants:* This group was more mixed in terms of extent of exclusion. They were more likely to be banked, but borrowed extensively from the sub-prime sector, were unlikely to save, were likely to struggle with fuel bills and unlikely to take out insurance.
- *Asian households*: The Asian households in the survey tended to be less financially excluded than other groups. With the exception of relatively high levels of fuel poverty, the respondents in this group were to a greater extent linked up to the mainstream financial sector, were more likely to save and were less likely to borrow, especially from the sub-prime sector. However, this may mask actual levels of social exclusion among ethnic minority groups in Rochdale, as interviews with stakeholders suggested that ethnic minority groups were less likely to access local services.
- *Pensioner only households:* The respondents in this group were mixed in terms of financial exclusion. While they were likely to be unbanked and to be struggling with their fuel bills, few used pre-payment meters and few resorted to sub-prime credit. They were also more likely to save than the rest of the sample.

Financial inclusion interventions – current practice and gaps in provision

There are many examples of good partnership working across Rochdale. This includes sharing of information and best practice, liaising and signposting, and joint service delivery, fundraising and development of learning material. That said there may be areas in which partnership working may be improved. There may be scope for pooling and sharing of resources to expand or underpin service provision. This may for example, the sharing of frontline staff or back-office operations related to the delivery of services, such as advice provision and financial education, or to fundraising and bidding activities.

There are also many strong financial inclusion interventions and services being offered across the borough by various organisations and agencies. There is a host of holistic and specialist support and advice services, though it is likely that the demand outstrips the supply as tends to be the case. Social housing landlords offer a range of affordable insurance products as well as advice and support on welfare benefits, and financial education.

There are two great current and future gaps in financial inclusion provision:

- *Money and debt advice provision:* While there is currently a relatively extensive provision of specialist debt and welfare advice and casework, this provision is likely to be severely curtailed in the coming year as funding is cut for key programmes.
- *Affordable credit:* As already pointed out in the brief, there is currently no provider of affordable credit and savings products for financially excluded households that are not employed by the council.

Recommendations for tackling financial exclusion

We made a series of recommendations, namely changing current planning policy to prevent concentration of the sub-prime sector, the creation of a financial inclusion charity and piloting a laptop loan scheme to enhance use of banking and transaction services.

Glossary

ABI	Association of British Insurers
CAB	Citizen Advice Bureau
CAP	Christians Against Poverty
CDFI	Community Development Financial Institution
CDFA	Community Development Finance Association
CITR	Community Investment Tax Relief
CRA	Community Reinvestment Act
DWP	Department of Work and Pensions
LAA	Local Area Agreement
OFT	Office for Fair Trading
ONS	Office of National Statistics
PAT	Policy Action Team
RDA	Regional Development Agency
RSL	Registered Social Landlord

1. Introduction

The present document is the draft technical report for research into financial exclusion in Rochdale commissioned by Rochdale Metropolitan Borough Council (RMBC). The primary objective of the technical report is to support and strengthen the financial inclusion work in Rochdale by creating an evidence base on financial exclusion in Rochdale upon which the research team in close consultation with key stakeholders can outline and discuss a set of policy options to promote financial inclusion.

Specifically, this technical report seeks to contribute to enhancing the understanding of the nature, extent and groups at risk of financial exclusion in Rochdale through an in-depth study of the phenomenon involving analysis of data from a household survey and stakeholder interviews.

The remainder of this report is organised into five chapters:

- *Chapter 2:* Literature review
- *Chapter 3:* Methodology and research design
- *Chapter 4:* Financial exclusion in Rochdale
- *Chapter 5:* Financial inclusion interventions in Rochdale
- *Chapter 6:* Conclusions and recommendations

Additional documentation can be found in Annexes A-C:

- *Annex A:* Profile of sample
- *Annex B:* Survey questionnaire
- *Annex C:* Existing financial service providers

In addition, the findings and recommendations regarding the set-up of an affordable credit provider can be found in a separate report.

2. Literature review – national policy context

2.1. Introduction

Since the 1970s a combination of technological innovation, financial market deregulation and the movement to electronic payment of salaries has made banking services widely available for the vast majority of UK households. Today more than 95% of UK households have some kind of bank account, whilst more than 90% have a current account. Yet a sizable group of as many as 1.5 million UK low-income households are either totally excluded from accessing or live on the margins of mainstream financial institutions. This phenomenon is called financial exclusion and disproportionably affects vulnerable groups, such as lone parents, the elderly, ethnic minorities and disabled people.

Unable to access the services of the mainstream banking sector, financially excluded households may often have to resort to doorstep lenders. The high interest rates and often predatory lending practices of these types of lenders may leave the households at risk of over-indebtedness and further social exclusion. Also, the higher costs associated with managing a household budget on a cash-basis rather than through a bank account potentially reduce the disposable income of these households.

Financial exclusion has been high up on the political agenda since the election of the Labour government in 1997. This chapter provides a critical discussion of development in financial exclusion and financial inclusion policy since it was its elevation on the policy agenda in the late 1990s.

The remainder of the chapter is organised into nine sections. The second section examines the economic and political context, focusing especially on the current financial and economic crisis, while the third provides an overview of the evolution of financial inclusion policy. The following six sections look at changes in access to banking and transaction services (Section 4), savings and assets (5), the access to affordable credit and sub-prime borrowing (6), affordable insurance (7), over-indebtedness (8) and fuel poverty (9).

2.2. Economic and political context

Any account of changes to a population or a social phenomenon over the past few years would be incomplete without reference to the current financial and economic crisis and its implications.

The current financial crisis “is the largest [banking crisis] since 1929-33”(Barrell and Davis, 2008 p. 5). The trajectory of the crisis is well-known by now. Falling US house prices, rising mortgage delinquencies and foreclosures led to massive losses in sub-prime residential mortgages and mortgage backed securities in the spring of 2007. The subsequent loss of confidence in financial institutions led to a freeze in inter-bank lending, which contributed to the fall of Northern Rock in February 2008. The bottom fell out of the market in September 2008 with the bankruptcy of the Lehman Brothers and the near-collapse of the insurance giant American Insurance Group (AIG) triggering panic sales and large losses in the stock market.

Up until the onslaught of the financial crisis and the current economic difficulties, the UK economy had experienced unprecedented levels of economic growth. However, a perfect storm of reduced availability of credit, rising prices for raw materials, energy and other inputs, and falling prices for output pushed the UK economy into negative growth rates in 2008.

Although economic growth resumed in the last quarter of 2009, the consequences of the financial crisis are likely to reverberate for some years to come. The National Institute of Economic and Social Research (NIESR) predicts that growth will remain low in 2010 and 2011 hovering around 1% and that unemployment will peak at above 9% in 2011 (Kirby et al., 2010).

The full consequences of the economic and financial crisis on the nature and magnitude of financial exclusion are not yet known as limited research has been conducted in the field and the effects are likely to be lagged. It is expected that the economic and financial crisis will increase the number of people that are financially excluded. A tightening of lending criteria, job losses, rising debt and repossessions are likely to increase the number of credit impaired households. This, one would expect, would reduce the ownership rates of products linked to credit rating, such as current accounts, mortgages, consumer loans, credit cards and insurance policies. In addition it has also been speculated that sub-prime lenders have taken advantage of the tightening of lending policies among mainstream banks to move upwards in the market.

2.3. Financial inclusion policy

Numerous policies and events have affected the financial inclusion policy since it became recognised as an important issue within deprived neighbourhoods following the establishment by the previous Government of the Policy Action Teams (PAT's) in 1998 (Table 2.1).

Table 2.1: Financial Inclusion Timeline: Policies and Events

1998	18 PATs set up by Social Exclusion Unit (SEU) to tackle problems facing people in deprived neighbourhoods; PAT 14 focused on personal finance & PAT 3 focused on enterprise development
1999	PATs launch findings
	Inter-ministerial group on fuel poverty set up
2000	Social Investment Taskforce recommends creation Community Investment Tax Relief (CITR) & Community Development Venture Capital (CDVC), & disclosure of bank lending in deprived communities
	Phoenix Fund launched
	Fuel Poverty Monitoring and Technical Group set up to monitor progress on combating fuel poverty & to provide advice to government on fuel poverty policy
	Home Energy Efficiency Scheme (now Warm Front Team) launched to provide insulation & heating measures to private sector housing households on certain benefits
2001	Association of British Insurers (ABI) & Housing Corporation launched best practice guidance on establishing insurance with rent schemes
	UK Fuel Poverty Strategy released
2002	Introduction CITR for business lending Community Development Financial Institutions (CDFIs)
	1st Savings Gateway Pilot Launched
	Bridges Ventures launched
	Community Development Finance Association (CDFA) founded
2003	Consumer Credit White Paper "Fair, clear and competitive. The Consumer Credit Market in the 21st Century"
	Social security benefits & state retirement pension paid into accounts rather than girocheques & payment books

	Basic Bank Account – a no-frills bank a/c not requiring credit scoring – introduced
	Post Office Card Account (POCA) – electronic version of girocheque or payment book – launched
2004	Illegal Money Lending Team piloted in Glasgow & Birmingham
	Policis report *"The effect of interest rate controls in other countries"* argues that interest rate ceilings may force people to take out larger loans, increase illegal money lending & entice lenders to introduce/increase other charges
	National Consumer Council (NCC) lodges super-complaint against home credit industry with Office of Fair Trading (OFT). OFT response points to lack of competition
	Government & major banks agree on shared goal of halving number of adults living in households without access to a bank account
	Treasury Committee announces inquiry into cash machine charges
	Government Plan for Action on fuel poverty launched with the aim of ending fuel poverty for vulnerable households by 2010
2005	Child Trust Fund launched
	2nd Savings Gateway Pilot launched
	Financial Inclusion Taskforce launched
	Financial Inclusion Fund 1 (FIF) (£120 million, 2005-08) launched
	Treasury Committee publishes report on inquiry into cash machine charges concluding though fee-charging machines legitimate their spread if at expense of free machines a concern & called for more transparency on behalf of LINK
2006	Insurance Working Group established under Financial Inclusion Taskforce (FIT)
	My Home launched by the National Housing Federation
	Competition Commission Home Credit Investigation report launched
	ATM Working Group under chairmanship of John McFall MP reports
2007	End of Phoenix Fund, responsibility transferred to Regional Development Agencies (RDAs)
	Roll-out of Illegal Money Lending Teams to all regions in Great Britain
	Government strategy "Financial inclusion: the way forward" launched
	Experian publishes "Mapping the demand for, and supply of, third sector affordable credit"
2008	Thoresen review publishes its report recommending a multi-channel approach to the delivery of generic money advice, building on a partnership model & a new brand reflecting the principles of this new service
	FIF2 (£135 million, 2008-11) launched
2009	Homeowners Mortgage Support scheme announced to assist homeowners experiencing temporary drops in income by deferring repayments of up to 2 yrs
	Mortgage Rescue Scheme announced to prevent vulnerable households losing their homes via RSL provision of equity loan or government mortgage to rent
	Moneymadeclear Pilot for North West & North East England to provide people with money guidance (online, phone & face-to-face) to make the most of their money in response to Thoresen review
2010	Launch National Audit Office (NAO) report praising FIF2 face-to-face debt advice programme but criticising indebtedness strategy
	Moneymadeclear F2F delivery is due to be rolled out nationally
	Government announces policy to legally oblige UK banks to open basic bank accounts for citizens

The previous Government put in place a series of financial inclusion interventions since its election in 1997. In the main these interventions have sought to deal with market failures in the provision of mainstream financial services by supporting supply through the third sector rather than putting in place legislation obliging mainstream service providers to provide for the financially excluded. For example, the UK is one of the few countries in Western Europe without a cap on interest rates and there are no laws requiring disclosure of data on lending to low-income households and areas. Instead, UK legislation is predominantly focused on enforcing sales and advertising standards, including ensuring that financial product contracts are transparent (displaying APR etc) and banning certain sales practices seen as predatory, such as cold calls.

2.4. Banking and transaction services

The access to transaction and banking services has been at the centre of financial inclusion strategy in the UK since financial exclusion became a policy concern in the late 1990s. The emphasis on banking and transaction services in terms of policy and targets stems from the notion that managing a household budget without these services is very difficult and costly. This is also an area where considerable progress has been made. Table 2.2 shows account ownership for households in England since 1998, while Table 2.3 lists the proportion of households with no bank account by weekly income.

Table 2.2: Bank account ownership for households in England (%)

	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Current account	86	86	87	88	88	90	91	91	90	92	92
Post Office A/C	12	8	8	7	7	7	5	4	5	4	--
POCA	--	--	--	--	--	--	--	7	6	7	6
Other accounts	66	62	60	58	56	55	54	51	50	51	50
Basic Bank A/C	--	--	--	--	--	3	6	5	7	7	6
No accounts	7	8	7	7	7	6	4	3	3	3	3

Source: Family Resources Survey, DWP

Notes: Proportion of bank account ownership for households in England in brackets

Table 2.3: Households in England with no bank account by weekly income (%)

	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
< £100	16	18	16	16	17	15	10	10	11	7	10
£100-£199	19	21	21	18	19	16	10	6	6	6	6
£200-£299	10	12	13	11	12	10	6	4	4	4	3
£300-£399	3	4	6	5	6	5	4	3	3	3	3
£400-£499	1	1	2	2	3	3	3	3	2	2	2
£500-£599	1	1	2	1	3	2	2	2	3	2	3
£600-£699	1	1	1	1	1	2	2	2	2	2	2
£700-£799	-*	-*	1	1	2	2	1	2	3	2	2
£800-£899			-	1	2	1	1	2	3	1	2
£900-£999			1	1	2	1	1	2	2	2	2
≥ £1,000			1	1	2	1	1	2	2	1	2

Notes: * Includes all households with incomes of £700 and above

The data shows a gradual reduction in the proportion of unbanked households. In England, from 1998 to 2003 around 7% had no account. In 2003 onwards this percentage started falling until it settled on its current level of 3%. If we look at the proportion of households with no bank accounts, we can see that account ownership increases with weekly income. At the beginning of the period, between 10% and 19% of households in the three lowest income brackets did not have a bank account, compared with 1% for the three highest income brackets.

However, a more interesting observation is that bank account ownership for higher income groups seems to have reached a saturation point at around 1-2% and changes little between 1998 and 2009. In contrast, the proportion of households in the three lowest income brackets without a bank account falls considerably, especially after 2004.

Absolute figures of unbanked households largely corroborate the increase in bank account ownership. Table 2.4 displays the progress made towards the goal agreed between the Government and major retail banks in 2004 to halve the number of unbanked households.

Table 2.4: Progress towards shared goals on unbanked (denoted in millions)

FRS Year	Unbanked households	Adults in unbanked households
2002-03	1.84	2.83
2005-06	1.30	1.97
% change since 02/03	- 29%	- 30%
2006-07	1.37	2.09
% change since 05/06	5%	6%
2007-08	1.25	1.85
% change since 06/07	- 8%	- 11%
% change since 02/03	- 32%	- 35%

Source: HM Treasury Statistical Briefings on households without access to bank accounts
Notes: FRS = Family Resources Survey

Since 2002-03, the number of unbanked households has fallen by 32%, while the number of adults in unbanked households has fallen by 35%. In absolute terms, the number of unbanked households fell from 1.84 to 1.3 million from 2002-03 to 2005-06, constituting a percentage decrease of nearly 30%. Since then progress has stalled, with the number of unbanked households being reduced by a mere 50,000 since 2005-06 or around 4%.

Further, a survey conducted for the National Consumer Council (NCC) (2005) found that low-income consumers were increasingly comfortable with the idea of having their benefits paid into a bank account. From 2000 to 2005, the proportion of these households feeling very or fairly uncomfortable fell from half to around one in ten.

This progress is likely to be the product of numerous factors including:

- *Introduction of no-frills accounts:* On the back of PAT 14's recommendation, the Basic Bank Account – a no-frills bank account not requiring credit scoring – was introduced in 2003. In the same year the Post Office Card Account (POCA) – an electronic version of the girocheque or payment book – was also launched. Although questions have been raised about their usefulness, they have contributed to reducing the number and proportion of unbanked households. Since being launched, 4 million POCAs (Collard, 2007) and nearly 8 million Basic Bank Accounts (BBA website) have been opened. Research commissioned by the British Bankers Association (BBA) suggests that 6 out of 10 had no other account when opening a basic bank account and 5 out of 10 came from households with no bank accounts (Millward Brown Research, 2006).

- *Electronic payment of benefits:* The Government decided to pay benefits and state pensions into accounts rather than through payment books and girocheques from 2003, as well as housing benefits by 2005. This has also undoubtedly been a contributing factor to reducing the number of unbanked households, especially given that households on means-tested benefits have a high likelihood of being financially excluded or unbanked.
- *Introduction of shared aims:* The development and monitoring of a shared goal for halving the number of unbanked households and adults has probably also given momentum to this trend.

In its 2010 budget the Government also announced that banks would be legally obliged to provide a basic bank account to every citizen. It is expected that this measure may further underpin progress towards reducing the number of unbanked households.

However, there are question marks about the extent to which increased bank account ownership in fact leads to increased usage. Research commissioned by Ofgem suggests that customers on prepayment meters are unlikely to switch to paying via direct debit (International, 2008). Similarly, a NCC (2005) study found that half of basic bank account holders only used their accounts to receive and withdraw benefits, preferring to manage their money and pay bills in cash. A study conducted for the Financial Inclusion Taskforce also found that the use of prepayment meters and cash payments was prevalent among lower income groups (BMRB Social Research, 2006). Finally, research conducted for the BBA into basic bank account holders found that 50% did not have any direct debits coming out of their bank accounts (Millward Brown Research, 2006). It must be noted that it is difficult to track changes in bank account usage as FRS and similar surveys do not collect such information.

This persistence of cash-based budgeting and money management is a major obstacle to promoting financial inclusion. By not using electronic means of payment, the households are not building up a credit score which potentially could enable them to access mainstream financial products. Moreover, paying bills in cash also means higher costs, as the best deals tend to be found online.

One of the main reasons for the persistence of cash-based budgeting is the ability to monitor and control spending, and particularly to avoid getting into debt (National Consumer Council, 2005, BMRB Social Research, 2006). By operating in cash, funds can be allocated to different budget posts through the use of designated jars or envelopes enabling the individual responsible for budgeting to control spending.

Another key area of policy on banking and transaction services relates to the access to free ATMs. The focus on ATMs can be traced back to the Treasury Select Committee inquiry into cash machine charges set up in December 2004. The report published the subsequent year raised concerns that if the spread of fee-charging ATMs was happening at the expense of free ATMs this could potentially exacerbate financial exclusion. On the back of these concerns, an ATM Working Group under the chairmanship of John McFall MP was set up in December 2006.

The ATM Working Group (2006) found that there had been a net increase in free ATMs. Although there had been an increase in the number and proportion of charging ATMs, the proportion of total withdrawals from such machines had remained stable.

Statistics from the LINK website confirm that this is still the case, as around 97% of cash withdrawals (per December 2009) are from free machines, up slightly from the 96% reported by the working group. Similarly, research conducted for the Financial Inclusion Taskforce of ATM usage found no evidence suggesting that low-income households disproportionally use charging ATMs (BMRB Social Research, 2006).

However, the group did find that around 1,700 of the most deprived quartile of Super Output Areas (SOAs) did not have a free ATM in the area or within 1 kilometre from the centre of the area. Around 4% of the UK population live in these SOAs. Half of these areas had charging ATMs and a third had a post office branch, an important source for free cash withdrawals for low-income households.

Around 130 of these areas were deemed unsuitable locations for free ATMs due to planning issues or low population densities. The Working Group agreed to work towards placing free ATMs in the remaining areas. Table 2.5 displays the progress towards that target.

Table 2.5: Progress on targets for free ATMs in deprived areas

Target Super Output Areas	Number of target areas addressed
ATM live	979
ATM under contract*	103
Total	1,082
Areas deemed unsuitable	130
Total resolved or unsuitable	1,212
Outstanding areas	495
Total	1,707

Source: LINK website, updated November 2009
Notes: * Not all these sites may be installed

To date around 500 of the areas identified have yet to have a free ATM placed in them.

2.5. Savings and assets

Encouraging households and individuals to save in the form of pension policies, regular savings accounts and stocks, has been a key concern for the UK government. Households and individuals who save may be in better position to cope with income shocks, life-cycle events (e.g. old age and retirement) and expenditure hikes without relying on the public safety nets.

Table 2.6 displays the amount of savings for households in Great Britain and the proportion of households with no savings by income group.

Table 2.6: Amounts of savings for households in Great Britain (%)

	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
No savings	28	27	28	28	28	27	27	28	24	27	28
< £1,500	22	23	23	21	20	19	22	21	24	20	18
£1,500-£3,000	8	8	8	8	8	8	8	7	7	7	7
£3,000-£8,000	14	14	14	14	15	16	15	15	14	15	15
£8,000-£10,000	3	3	3	3	3	4	4	4	3	4	4
£10,000-£16,000	7	7	7	7	7	7	7	7	7	7	7
£16,000-£20,000	3	3	3	3	3	3	3	3	3	3	3
≥ £20,000	14	15	15	15	15	15	15	16	17	17	19

Households with no savings by weekly income (%)

	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
< £100	45	40	43	43	45	43	44	46	43	41	42
£100-£199	40	45	47	46	46	45	44	45	36	44	44
£200-£299	38	38	40	40	40	39	39	41	33	41	41
£300-£399	27	27	29	31	31	31	32	34	29	34	37
£400-£499	20	20	20	24	24	27	29	29	28	30	30
£500-£599	16	16	18	19	21	21	23	25	23	24	27
£600-£699	12	12	15	16	15	19	20	18	21	21	23
£700-£799	7*	7*	12	15	16	14	15	14	18	18	19
£800-£899			11	14	13	14	13	17	16	16	18
£900-£999			7	10	11	10	16	14	15	14	14
≥ £1,000			7	9	8	8	9	9	9	9	10

Notes: * Includes all households with incomes of £700 and above

The data suggests a remarkable stability in savings patterns in the last decade. Except for 2006-2007, around 28% of households have no savings whatsoever. The percentage of households with no savings – 27% – was identical for 2003-04 and 2007-08 and only increased slightly to 28% in 2008-2009.

The data on savings by weekly income is less clear. For the lowest income group the proportion of households with no savings has fallen from 45 to 41% since 1998-99 and from 43 to 41% since 2003-04. However, there is considerable variation from year to year for this group, in part because of a small and decreasing sample of households from this income group. For all other income brackets the likelihood of having no savings has increased.

Not surprisingly, the likelihood of having no savings increases as weekly income falls. Around 40-45% of households in the lowest three income brackets (all below the poverty line) have no savings, compared with around 9-16% for the highest three income brackets.

The data in Table 2.6 is likely to underestimate the extent to which people save as many save through informal means (Kempson and Finney, 2009), such as jars, overpayment of prepayment meters and Christmas hamper schemes. Nevertheless, there is a persistent and low propensity to save, especially among the lower-income groups. Moreover, in their review of the existing evidence and literature on saving, Kempson and Finney (2009) conclude that low-income households are especially unlikely to save for the medium and long-term.

The main causes for the low levels of saving include:

- *Life-stage factors:* The life-stage in which the household finds itself in is a powerful influence on the propensity to save. In particular, research suggests that youth, raising a family and retirement are periods characterised by low levels of savings (Kempson and Finney, 2009). This is because of low incomes (retired people and to some extent for households with children), fluctuating and unpredictable incomes and expenditure patterns (households with children) and attitudes (young people).
- *Change in circumstances:* People experiencing a change in their circumstances, such as ill health, relationship breakdown, purchase of a home and loss or change of job, are less likely to save.
- *Financial instability:* Fluid and unpredictable incomes and expenditure patterns, often due to tenuous links to the labour market and raising a family, make it more difficult to save regularly. Households whose lives are characterised by such financial instability are less likely to save formally (Kempson and Finney, 2009).
- *Affordability:* Households living on low disposable incomes are unsurprisingly less likely to save. These households live on a low income because they are unemployed or unable to work due to long-term sickness or disability. They may also have low disposable income due to heavy credit commitments or because they are remitting income abroad (Kempson and Finney, 2009).

The striking aspect of the list of causes of low propensity to save and low levels of savings is that they are all linked to structural factors or barriers. By structural we mean socioeconomic and demographic characteristics of household and individuals which are either non-changeable (e.g. age etc) or which have proven very difficult to alter (e.g. links to labour market etc).

2.6. *Affordable credit and sub-prime borrowing*

Another area in which the previous Government invested considerable resources since the late 1990s has been in the provision of affordable credit. Unable to access loans from the mainstream banking sector, many households have to resort to high-cost credit provided by the so-called sub-prime sector.

The sub-prime sector is diverse, comprising home credit companies, licensed financial companies, sell-and-buy-back stores, pawnbrokers and instalment credit stores. The sector offers a wide and expanding range of financial products, including credit cards, unsecured personal loans and mortgages and pre-pay cards. The sub-prime sector principally caters for credit-impaired and higher risk borrowers who fail to qualify for loans or other products with mainstream financial institutions. The sector offsets this greater risk by charging higher interest rates and fees relative to the mainstream sector.

There are various estimates of the size of the sub-prime sector. Ellis et al (2006) estimate that there are around 2.3 million users of high-cost licensed home credit lenders in the UK, equivalent to around 6% of the adult population. A review of the high cost credit sector by the Office of Fair Trading (OFT) found that in 2008 the sector made loans to customers totalling £7.5 billion (OFT, 2010).

A recent study of payday lending estimated that around 1.2 million adults in the UK took out payday loans in 2009 (Burton, 2010). The total lending of the payday loan sector was £1.2 billion and the industry's gross income was around £242 million in the same year (Burton, 2010). The same study also found that the average charges had risen from 15% in 2006 to 20% in 2009. In their study of UK pawnbrokers, Collard and Hayes (2010) estimated that the number of outlets had increased from 800 in 2003 to around 1,300 today, though much of this expansion has been fuelled by non-pawnbroking products, such as cheque cashing and payday loans. The sector has a loan book of around £192 million (Collard and Hayes, 2010).

So far, and unlike the US and many countries in the EU, the Government has chosen not to tackle this issue through legislation. On the contrary, the UK has among the most liberal regulatory frameworks for financial services in the world (Marshall, 2004), especially among developed nations (Reifner, 2007). The UK is one of the few countries in Western Europe without a cap on interest rates and there are no laws requiring disclosure of data on lending to low-income households and areas.

Despite campaigning for a UK Community Reinvestment Act[1] to force banks to disclose lending and invest in the UK community finance sector, such an act has yet to be seriously considered by the UK Government. This is because it is not seen as appropriate as the banking sector is not as regional or local as in the US and UK governments have generally been averse to interventionist policies vis-à-vis the financial sector.

The UK Government has seen the lack of competition in provision of credit to low-income, financially excluded consumers as the key obstacle to accessing affordable credit, rather than redlining or discrimination on behalf of banks (HM Treasury, 2004). Competition in the home-credit sector may have decreased further in the past few

[1] The US CRA involves an obligation for banks to meet the needs of low and moderate income borrowers and neighbourhoods. Specifically, the act involves disclosure of lending and investment behaviour of financial institutions, rating system of behaviour and sanctions against non-compliant institutions.

years as three large providers have withdrawn from the market (London Scottish Bank, the Park Group and Cattles).

The Government has sought to bridge this gap through increasing the supply of affordable credit through the third sector thereby increasing competition. Since 2005, the Government has funded such provision through the Growth Fund which consisted of £42 million for the period 2005-2007 and £38 million for 2008-2011. Between July 2006 and November 2010 this has enabled third sector lenders to make nearly 300,000 loans to a value of £128 million in England (DWP website). The Growth fund is due to expire in March 2011 and there has been no suggestion that this fund will be continued.

2.6.1. Lending policies

We now turn to the lending policies of the sub-prime, mainstream and third sector lenders. Lending policies are defined as guidelines and standards which employees of lenders must observe in the granting or refusal of loan requests.

Table 2.7 displays the lending policies of the different types of lenders and the implications of these policies on the business model.

Table 2.7: Lending policies of mainstream, sub-prime and third sector lenders

	Mainstream	Sub-prime	Third sector
Factors likely to lead to approval	Higher income & home ownership increase likelihood of approval; Certain forms of employment seen as riskier (e.g. self-employments); Good repayment record on past & current credit commitments; Stable, permanent & continuously improving employment careers also favoured; Large loan amounts (typically above £5,000)	Targets customers that cannot access mainstream borrowing (e.g. credit impaired customers & customers without credit history), & also customers who prefer to pay in cash. While sub-prime lenders assess repayment capacity, their lending involves greater risk which is built into pricing. Eligibility criteria vary for products (e.g. to qualify for a payday loan the applicant must be employed)	Inability to access mainstream loans often a requirement for accessing loans, especially growth fund loans. Ability to repay is key concern in loan application process. For credit union loans a savings record is a prerequisite
Factors likely to lead to rejection	No or bad credit history; CCJs; Defaulted accounts; Low income; limited or no link to labour market; applying for small amount	Generally fewer factors leading to rejection	Excessive debt; Outgoings exceeding income; Loans for debt consolidation
Implications for business model	Business model based on low default rates & competitive pricing. Much more competition than in sub-prime sector so low borrowing costs key	Business model is based on higher default rates than both sub-prime and mainstream lenders. The greater risk of lending is built into pricing. Flexibility & limited paperwork seen as more important than pricing as less competition & less price conscious customers	Higher default rates than mainstream, but lower than sub-prime. Greater risks are in part covered by subsidies & in part through greater interest rates compared with mainstream lenders. Traditional credit union loans have considerably lower default rates than growth fund loans
Implications for customers	Lowest borrowing cost of three sectors. Requires customers to use banking & transaction services to repay loans. Also greater emphasis on taking out loans via telephone or internet	Highest borrowing cost of three sectors. Enables customers to take out smaller loans with less paperwork. Greater leniency on late payments & possibility for paying in cash. Greater face-to-face contact	Higher price than mainstream credit, but lower than the sub-prime sector. Traditional credit union loans cost less than growth fund loans but requires a savings record

The distinguishing feature of the lending policies of the three types of lenders is how they balance borrowing costs on the one hand and risk and flexibility on the other. The lending policies of the sub-prime sector focus on enabling high-risk customers to borrow small amounts, to repay in cash and to miss payments without penalty charges. According to research, the business model of home credit companies is based on the assumption that around 25% of their customers will miss at least one payment (Kempson et al., 2009). Many providers also collect payments at the homes of the customers and there is limited paperwork involved. The greater risk, flexibility and missed payments are reflected in the greater borrowing costs.

At the other extreme, mainstream lenders focus on reducing risk of default and reducing delivery costs through enabling and enticing customers to apply for and repay loans remotely. This enables the lenders to offer much lower interest rates than sub-prime and third sector lenders, which is necessary to compete in a very crowded market.

The third sector lenders tend to target households that are excluded from accessing mainstream finance. They are more risk averse than sub-prime lenders, but accept a greater deal of risks than mainstream lenders. Their lending policies focus on the customer's ability to repay and the inability to access mainstream borrowing (not always the case). Previous research suggests that around half of all loan applications are rejected (Dayson and Vik, 2008). Every new application tends to involve an interview, compiling a list of income and expenditure, and maybe even setting up a bank account for the applicant. This means that the process will not be nearly as quick and straightforward as the application process for a sub-prime loan. Most third sector lenders also insist on borrowers servicing loans using direct debit or standing orders, which is likely to limit the possible migration of customers from sub-prime (customers that cannot meet regular cash payments would most likely not be able to service a loan using direct debit.

2.7. Insurance

Whilst the access to insurance received considerable attention in the report of PAT 14, insurance itself has been largely neglected until recently. In 2006 a working group on insurance under the Financial Inclusion Taskforce was established to work specifically on obstacles to broadening the access to affordable insurance products among low-income households.

The main focus of policy on insurance has been on increasing access to home contents cover for households and individuals living in rented accommodation by working with social landlords to extend the outreach of insurance-with-rent schemes, the availability to which has been patchy ce and the uptake of which has been limited (Hood et al., 2005).

In 2006, the National Housing Federation and the social housing insurance broker Jardine Lloyd Thompson launched My Home, an affordable, home contents insurance product, offered through social housing landlords. Per the second quarter of 2009, My Home was offered through 280 social housing landlords and it had around 16,000 tenant policy-holders (NHF, (Undated)).

The Association of British Insurers (ABI) has identified motivating staff and fitting the marketing and selling of insurance alongside their existing tasks as something that needs to be tackled. With this in mind, ABI is currently working with the DWP to develop a training toolkit for housing staff through the Financial Inclusion Champions scheme.

Yet despite the renewed emphasis on extending the coverage of Home Contents Insurance (HCI), historical data suggests that the ownership of HCI has remained fairly stable over the last 15 years. The ABI (2007) reports that despite the fall in costs in real terms of around 40% from 1994 to 2007, the proportion of the population with home contents and building insurance has remained relatively stable.

In particular, ownership of HCI has remained low among social housing tenants. Between 1994/1995 and 2003/2004 the proportion of registered social landlord tenants without HCI fell from 63.4% to 59.2%, but the proportion of council tenants increased from 54.4% to 60.8% (Demos and Safe, 2005). Data from the most recent Family Resources Survey suggests that the proportion of social tenants without insurance has remained stable at around 64%.

There is a wide range of factors accounting for the low ownership of both life and HCI policies among households living on low incomes and in rented accommodation. On the demand side, there are three main factors reducing the propensity of households to take out insurance policies:

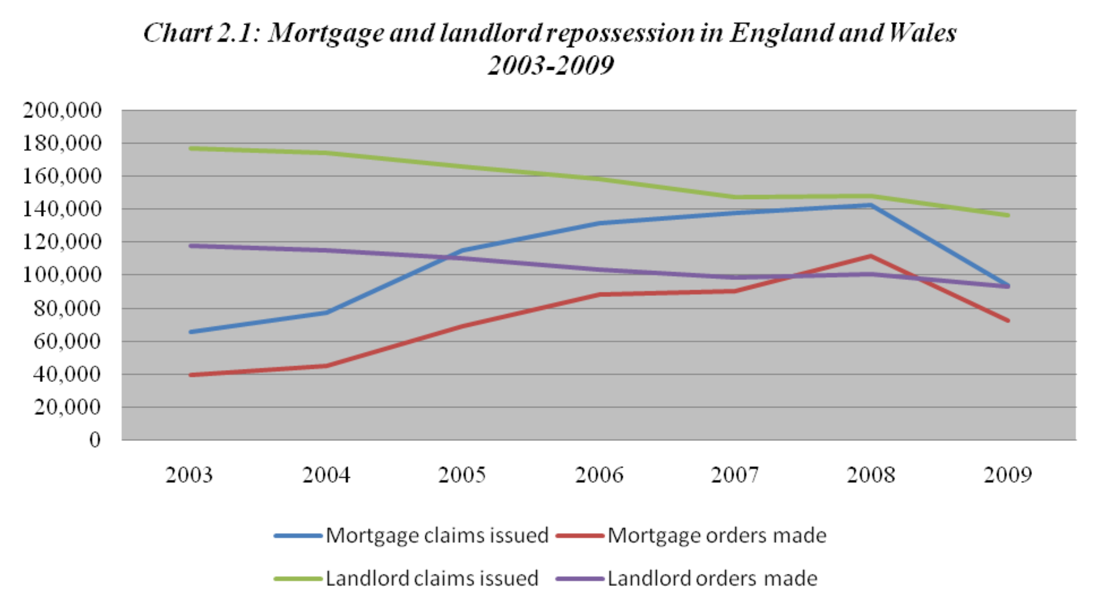
- *Inappropriate design:* Insurance policies are often not appropriately designed to accommodate the needs and preference of low-income consumers. Premiums are often too high and there is often no allowance for lapses.
- *Delivery channels:* The channels through which insurance is sold and distributed are likely to discourage low-income consumers from purchasing insurance policies. Insurance is often sold online or telephonically and serviced using direct debits, but these households often prefer a more personalised, face-to-face delivery and servicing of financial products (Collard et al., 2001, Ipsos MORI, 2007).
- *Lack financial literacy:* a low degree of financial literacy and understanding of insurance products may make low-income households less likely to solicit such products (Collard et al., 2001). In particular, the Insurance Working Group (IWG), established by the Financial Inclusion Taskforce, highlights the lack of understanding of the benefits of insurance and mistrust of insurance companies as important demand-side barriers to accessing insurance for low-income households (IWG cf. HM Treasury, 2007).

On the supply-side, the high risks involved in delivering insurance to low-income households have worked as a barrier for the insurance industry in delivering insurance to these households. Households living on council estates are twice as likely to be burgled compared to non-council estate households (Demos and Safe, 2005).

2.8. Over-indebtedness and debt advice

Over-indebtedness is a complex phenomenon closely linked to the financial inclusion agenda. It can be caused and sustained by a host of factors, including high finance costs, low income, life-cycle events, changing circumstances, income shocks and expenditure hikes. This issue has become particularly prominent since the onslaught of the credit crunch and the recession.

One of the key measures of indebtedness is landlord and mortgage repossessions (Chart 2.1).



Claims issued refer to the moment when a claimant begins an action for an order for possession of residential property by issuing a claim in a county court. Orders made refers to when a court, following a judicial hearing, grants an order for possession immediately entitling claimant to apply for warrant to have defendant evicted. However, even where a warrant for possession is issued, the parties can still negotiate a compromise to prevent eviction.

Mortgage claims and orders have increased steadily and considerably since 2004. From 2003 to 2009 the number of mortgage claims and orders rose by 43% and 82% respectively. There are three main factors accounting for the rise in mortgage repossession claims and orders:

- *Rising financing costs:* Between 2003 and 2007 there was a considerable growth in average interest rates increasing the financing burden for many mortgage holders. The average interest rate for a standard variable mortgage rose from 4.19% in 2003 to 6.32% in 2007 (CML data). This started falling again in 2008 and averaged 4.32% in 2009 (CML data).
- *Falling affordability:* The median mortgage advance-to-income multiple for first-time buyers and all buyers in the UK – a key measure of affordability – rose by over 15% from 2003 to 2008.
- *Rising unemployment:* Up until the summer of 2008, the proportion of JSA claimants hovered around 3% or around 4,000 claimants. From the autumn of 2008 the number and proportion of claimants have risen steadily peaking in January 2010 at 5.9% and nearly 7,800 claimants. Since then the number of claimants has fallen to its current rate of around 5% and 6,500 claimants. Nevertheless, since the fall of Northern Rock in February 2008 the number of claimants has increased by over 60%. This is likely to have put further upward pressure on mortgage repossessions.

Landlord possession claims and orders in England have been falling steadily since 2003. Landlord possession claims have fallen by 23% from 2003 to 2009, while orders have made have fallen by 21%. Unlike homeowners, tenants have not experienced the same rise in living costs (linked to the rise in interest rates). Moreover, the rise in housing prices will not have affected tenants to the same extent.

The trends in possessions claims and orders are likely to reflect changes among social housing landlords. Possession actions by social landlords increased considerably in the decade leading to 2003 due to three factors (Office of the Deputy Prime Minister, 2005):

- A rise in multiple indebtedness;
- Reduced responsiveness of housing benefits systems, due to increased demands on claimants and staff following the introduction of the Housing Benefit Verification Framework in 1998;
- A rise in employment rates among social tenants, especially in low-paid, temporary work, which often led to discontinuation of housing benefits.

Nationally possession claims have been falling since 2003 as staff and tenants have adjusted to the changes in the housing benefit system as social housing landlords have used more staff discretion in dealing with rent debtors (Office of the Deputy Prime Minister, 2005).

Following the credit crunch and the rise in repossessions, the UK government has introduced two main schemes to support struggling homeowners:

- *Mortgage Rescue Scheme:* A £200m package of measures designed to prevent some of the most vulnerable families losing their homes. This occurs either through RSL provision of equity loan or government mortgage to rent. It aims to aid 6,000 homeowners over the next two years. As part of the 2009 budget, the scheme was extended to help people in negative equity.
- *Homeowners Mortgage Support:* Scheme announced April 21 2009 to assist homeowners experiencing temporary drops in income. Under this scheme, eligible homeowners will be able to make smaller mortgage repayments for up to two years, without the risk of losing their homes.

More generally, governments have funded free-to-client debt advice. There are a range of organisations which provide free-to-client face-to-face debt and money advice, including specialised debt advice agencies (e.g. CABx, Law Centres), local authorities (e.g. Welfare Rights services), social housing landlords, lawyers and community organisations. The main players in provision include Citizen Advice Bureaux, Law Centres, Social Housing Landlords and Welfare Rights sections of local authorities. Although open to all, many if not most of the clients of the not-for-profit sector are vulnerable households living on a low income. Their problems are often multi-faceted, going beyond pure debt problems, and they often require considerable support.

The sector is funded by a range of organisations, including local authorities, government departments, social housing landlords and foundations. The perhaps largest funding pot for face-to-face money advice is the Financial Inclusion Fund, which in its first round provided £47.5 million to recruit and train 500 debt advisers, and which provided advice to nearly 70,000 households (HM Treasury, 2007). For the period from 2008 to 2011, nearly 30% of the £135 million Financial Inclusion Fund is destined to generic money advice (HM Treasury, 2007). This programme will end in March 2011 unless the current Government decides to renew the funding, which seems unlikely.

In the UK there are numerous private sector organisations providing debt advice and remedies on a commercial basis. To access advice through this sector, the client must pay set-up and monthly management fees which are typically added on the payments going to creditors. These fees vary, but a survey of the sector conducted by Collard (2009) found that the fees ranged from 2.5% to nearly 18% with 15% being the most common figure. The same survey found that the companies charged up to £500 in set-up fees which are often taken by retaining the first payments (Collard, 2009).

The clients of the commercial debt management sector tend to live on higher incomes and be more likely to be employed. Commercial debt advice companies also tend to focus mainly or exclusively on unsecured credit debts rather than secured debts, or household, utility or council tax bills. The survey conducted by Collard (2009) also suggests the majority of commercial debt companies offer advice via telephone rather than face-to-face.

There are no precise estimates of the size of the sector. In its report on the UK Government's over-indebtedness strategy and funded debt advice provision (FIF2), the National Audit Office (2010) noted that 56,000 companies are permitted by the Office of Fair Trading to provide debt advice. A recent review of the fee-charging debt management sector found that there were over 150 companies offering DMPs for a fee (Collard, 2009).

A number of concerns about the commercial sector have been raised by campaigners, creditors and debt advice practitioners (Collard, 2009):

- *Profit not client-outcome driven:* Ultimately the bottom-line for the commercial sector is profit. It is feared that the companies recommend to clients the most profitable debt remedy rather than the most appropriate.
- *Unreliable payments of creditors:* Because commercial companies tend to draw set-up fees from the first few payments, creditors continue to chasing debt exacerbating the clients' debt problems.

There are now a range of standards and guidelines which a number of commercial companies are to follow. Most notably the Debt Managers Standards Association (DEMSA) has a Code of Practice which was approved by the OFT in 2008.

2.9. Fuel poverty

Fuel poverty – the inability to afford sufficient warmth for health and comfort – is a serious and debilitating form of deprivation and has been a concern for government since 1999. Fuel costs may crowd out other essential spending, such as food and clothing.

The most widely accepted definition of fuel poverty is where a household needs to spend 10% or more of its income to meet fuel costs to ensure that the home is heated to an adequate standard.[2] In England there are around 4 million households which can be classified as fuel poor, of which 3.2 million are classed as vulnerable (Table 2.7). There has been a sharp increase in fuel poverty in England since 2005 in particular.

Table 2.7: Fuel poverty in England (number of households)

	2003	2004	2005	2006	2007	2008
Households in fuel poverty	1.2m	1.2m	1.5m	2.4m	2.9m	4.0m
Vulnerable households in fuel poverty	1.0m	1.0m	1.2m	2.0m	2.3m	3.2m

Source: Fuel Poverty Advisory Group (for England) Sixth Annual Report 2008

There are three main factors leading to fuel poverty (DEFRA, 2008):
- *Energy efficiency:* The lack of efficient heating and effective insulation is a contributing factor to fuel poverty as it increases the cost of heating a house. In 2006, 28% of English households live in non-decent homes (DEFRA, 2008).
- *Energy prices:* Energy prices have risen considerably over the past five years or so. In real terms, the price of gas increased by 42% and the price of electricity increased by 29% from 2003 to the end of 2007 (Fuel Poverty Advisory Group (for England), 2007). Households who use prepayment meters pay more for their fuel than households paying direct debit or in cash.[3]
- *Household income:* Living on a low income is one of the most important factors driving fuel poverty (Conaty and Bendle, 2002). Nearly 80% of the fuel poor are classified as vulnerable.

There are several groups which are especially vulnerable to living in fuel poverty. The elderly are especially likely to be fuel poor. They spend more time in the home and they live on a low, fixed income. It is estimated that one in three pensioner households live in fuel poverty (Thompson, 2008). Households with children, especially single parent households and households with disabled household members are also vulnerable. Many of the fuel poor is that they live on a low income (Conaty and Bendle, 2002) and often lack access to and are less prone to be using more advantageous methods of paying for fuel, such as direct debit.

The UK government response to fuel poverty has been to develop three types of interventions (DTI, 2001).

First, the government has devised a number of interventions to increase the energy efficiency of the housing stock of England. Salient interventions include:

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[2] According to the World Health Organisation adequate warmth is 21 degrees Celsius in the living room and 18 degrees Celsius in other rooms.

[3] According to the Fuel Poverty Advisory Group (2007), per year a prepayment customer pays £145 more than a customer on direct debit. The difference between these customer groups has also increased over the past three years FUEL POVERTY ADVISORY GROUP (FOR ENGLAND) 2007. Sixth Annual Report..

- *Energy Efficiency Advice Centres:* The Energy Savings Trust and Energy Saving Scotland now have 21 centres across the UK offering people advice on a range of issues relating to energy efficiency.
- *Warm front:* Grants of up to £3,500 (£6,000 where oil, low carbon or renewable technologies are involved) are available to households who own or rent privately and who receive means-tested benefits. Between June 2000 and April 2008, 1.7 million received Warm Front grants (DEFRA, 2008).
- *Carbon Emissions Reduction Target:* CERT is an energy supplier obligation under which energy suppliers must deliver measures that will reduce carbon emissions by a certain amount. For the period of 2008-2011, it is estimated that this will lead to an investment by energy companies of around £2.8 billion (DEFRA website), 40% of which has to be targeted at vulnerable and low-income households.

A second group of interventions has centred on exerting downward pressure on fuel bills by ensuring a transparent and competitive energy market, mainly through the energy supplier regulator Ofgem. One of the key issues Ofgem has sought to address is the unfair price differentials between prepayment and direct debit. Recently Ofgem has proposed license conditions that differentials must be accounted for by cost and a ban on unjust price discrimination.

A final government policy relating to fuel poverty is increasing the disposable income of fuel poor households. Salient interventions include:

- *Tax credits:* Tax credits are payments from government targeted at the working poor and low-income households with children.
- *Winter fuel payment scheme:* Winter fuel payment is an annual payment for people over 60. Around 12 million people in the UK received such a payment in the 2007/08 winter (DEFRA, 2008).
- *Cold weather payments:* Payments to poorer pensioners and other eligible households in weeks of extremely cold weather. Around 500,000 such payments are made annually (DEFRA, 2008).
- *Benefit entitlement checks:* Benefit entitlement checks are part of fuel poverty initiatives such as Warm Front.

3. Methodology and research design

This chapter details the methodology applied in this research project. Table 3.1 outlines the methods applied to meet the requirements set out in the brief.

Table 3.1: Proposed methods

Part 1: Researching the extent, scale and the effect of financial exclusion	
Specification	**Proposed method**
Identification of any issues residents face in terms of access to and use of bank accounts.	Resident survey, stakeholder interviews
Identification of all financial services available in the borough including mainstream banking, credit unions and other credit providers such as pawnbrokers, cash generators and door step lenders and what they offer to local residents.	Service mapping exercise
Lending policies of different lenders i.e., complicated affordable credit vs. easy to get expensive credit.	Resident survey, literature review
Explore the use of unregulated credit and the activity of loan sharks. Identify the main customers of these services and reasons for choice.	Resident survey, stakeholder interviews
Research the extent of debt and its impact on individuals. To include impact on health and well-being.	Resident survey
Identify the impact of financial exclusion as a barrier to employment.	Resident survey, literature review, stakeholder interviews
Identify access to basic insurance products such as home contents, funeral assistance. Link to area based crime and disorder data.	Resident survey, review existing statistics
Identify how customers choose suppliers and pay fuel bills	Resident survey
Research customers' assessment of their own financial literacy/numeracy and need to develop capability in this area. Identify the strategic approach from mainstream training providers to this issue.	Resident survey, stakeholder interviews
Identify rent arrear levels and map the financial inclusion activity of the main registered social landlords in the borough	Stakeholder interviews, review existing statistics
Map debt advice provision in the borough and linkages to areas of highest need. Research trigger points for customers accessing debt advice and which source of support accessed.	Resident survey, stakeholder interviews
A mapping of anti-poverty work being progressed within and outside RMBC (parameters to be agreed).	Literature review, stakeholder interviews
Identify issues arising for particular groups: children/families, young adults, lone parents, older people, BME communities.	Resident survey, stakeholder interviews
Identify barriers to take up of alternative financial products, including within ethnic minority/faith communities where there is an emphasis on avoiding debt.	Stakeholder interviews
Estimate the total financial 'cost' of financial exclusion to local communities and Rochdale Borough's economy. Estimate the impact if these cash outflows were recycled within the local community economies.	Economic modelling
Identification of best practice from comparable cities in the UK.	Literature review
Identification of gaps in the borough and opportunities for partnership working between banks, RSLs, credit unions, Surestart and other organisations within the Pride Partnership.	Stakeholder workshops, stakeholder interviews
Breakdown of priorities by children/families, young adults, working age, older people.	Resident survey, stakeholder interviews

Identify ways in which RMBC can use the powers at its disposal to encourage mainstream providers to offer access to financial products in deprived communities and discourage sub-prime lenders.	Literature review, stakeholder interviews
Identify ways in which RMBC can ensure that its policies (such as council tax collection etc) do not inadvertently exasperate any debt issues already being faced by local residents.	Literature review, stakeholder interviews
Identify potential funding sources to progress key priorities.	Funding review
Part 2: Community based financial services model feasibility study	
The relative merits of services provided by different community based financial services models	Options Mapping
What various options are available and how viable is each option?	Options Mapping

Resident survey

A resident survey is a useful tool to ascertain attitudes and characteristics of a certain population. For the purposes of this research, a total of 301 people were interviewed face to face in their homes between 20th July and 12th August 2010. Interviews were conducted in a sample of 29 of the most deprived Super Output Areas in the district, ranked according to the 2007 Index of Multiple Deprivation scores. A total of 200 interviews were conducted in the 16 SOA's falling in the most deprived 3% of SOA's in the country. Approximately 100 interviews were conducted in other deprived SOA's selected to ensure that all townships were included as well as for the level of deprivation.

As the survey was concentrated in those areas with the highest levels of deprivation it is not representative of all Rochdale residents, rather it is a survey of those residents who are most likely to be at risk of financial exclusion. Interviewers were given quotas based on gender, ethnic origin, age and tenure designed to match the 2001 Census of Population data for each SOA. Full details on the socio-demographic make-up of the sample are given in Appendix A. The questionnaire can be found in Appendix B.

Percentages are either based on the complete sample (total) or on a sub-sample. The number of respondents for each column is given at the foot of the column (termed base). In some cases columns do not sum to 100%. This could be due to computer rounding errors (which means any sum between 98 and 102 should be considered as 100%), cases where respondents could give more than one response or cases where 'don't know' responses have been omitted. An asterisk in tables means that fewer than 0.5% of respondents gave that response.

The sampling tolerance depends on both the number of interviews and on the proportion of people giving a particular response.

Table 3.2: Approximate sampling tolerance: percentage of respondents giving a response at or near these levels

	10% or 90%	30% or 70%	50%
All interviews 300	+/- 3.4%	+/- 5.2%	+/-5.7%

This means that if 30% of the sample overall gave a particular response, the true answer lies between 25% and 35%, although it is more likely to be near 30%.

Stakeholder workshops

Two workshops with key stakeholders were held. The first one was held in September 2010 and provided participants with findings from the resident survey. It also provided them with an opportunity to provide their input on financial exclusion in the borough and how to combat it, and on the key opportunities and challenges for partnership working in the borough. The participants included representatives from Metro MoneyWise Credit Union, Trading Standards, advice providers, social housing landlords, banks and community groups. The second workshop was held in December 2010 and focused on the development of a third sector lender in the borough. At this workshop, the research team explained the research process and sought the participants' views on the different alternatives. The workshop was attended by a similar group of people.

Service mapping

The team mapped the services provided by mainstream financial service providers (i.e. banks and building societies), sub-prime financial service providers, including pawnbrokers, home credit companies and cash generators, and providers of financial inclusion services, including providers of affordable credit and debt and benefit advice. The mapping exercise would focus on, where applicable, resident eligibility (e.g. covered by common bond), access (branches, opening times, collection points, outreach service) and services offered (rates, amounts etc).

Economic modelling

Sub-prime lenders, such as pawnbrokers and home credit companies, may act as a drain on the scarce resource base of deprived households and communities. The sub-prime sector lenders often make loans at an APR well in excess of 100%. Such a high cost of finance may further impoverish households and lead them to default on other payment obligations, such as rent, which in turn leads to increased costs for community as a whole (e.g. provision of temporary accommodation for evicted household, legal resources relating to the eviction process etc).

Thus the research team conducted some economic modelling to quantify the cost of using sub-prime loans for deprived communities and households. The research team also modelled the costs of borrowing from CDFIs and credit unions. This allowed for a financial cost comparison and may give Rochdale Metropolitan Borough Council and other relevant bodies an indication of the potential impact of interventions aimed at strengthening the outreach of CDFIs and credit unions (e.g. through setting up referral mechanisms etc)

The economic modelling drew on data from the surveys alongside that secured from debt advice services. The local data was filtered through national information to provide as scientific an estimate as possible of the additional costs involved. From this an estimated Rochdale figures was calculated. The research team then ran a series of programmes showing the costs of credit on a cross-community basis through the usage of different providers.

Given the lack of national data, calculating the actual cost of high interest loans is difficult. Consequently the research team relied on extrapolating from the figures declared by the large moneylenders and the results from the Competition Commissions recent investigation into home credit.

Critical literature review

The research team conducted a review of existing literary sources. Such a review is helpful in that it assists the research team in understanding and analysing the nature, magnitude, drivers and consequences of financial exclusion, the national policy context, and in assessing the effectiveness of the different financial inclusion interventions.

Strategy and policy review

To identify appropriate interventions to combat the particular nature of financial exclusion in Rochdale, it is important to ascertain initiatives already being undertaken and to identify potential linkages with wider regeneration and planning strategies. Hence, the research team conducted a review of strategy and policy documents, including those listed in the brief.

Stakeholder interviews

The research team conducted a series of face-to-face semi-structured interviews with key stakeholders. These interviews would aid in fulfilling numerous of the requirements in the brief, including use of unregulated credit, financial exclusion as a barrier to employment and trigger points for accessing debt advice. As policy-makers, providers of services (e.g. advice, financial education) and/or providers of housing, stakeholders sit on important expertise on the causes and consequences of financial exclusion and on the actual and potential provision of services and interventions to combat it.

Funding review

A review was conducted of potential funding sources which RMBC could tap into for the funding of the financial inclusion action plan.

Option mapping – affordable credit provision

The analysis of the feasibility of different community-based financial service provision models consisted of a mapping and assessment exercise of the different options available. This exercise was two-fold. First, we conducted a gap analysis of the demand and supply of affordable credit. The analysis of supply drew on the service mapping exercise, while the demand analysis drew on the survey and existing statistical data on the borough. Second, we mapped and assessed the different options for delivering affordable credit in the borough. This exercise drew on interviews and discussions with third sector lenders, discussions with regulators (e.g. how likely are they to accept a new issue of IPS) and on our expertise and knowledge from having set up several sustainable CDFIs and Community Banking Partnerships in the past.

4. Financial exclusion in Rochdale

4.1. Introduction

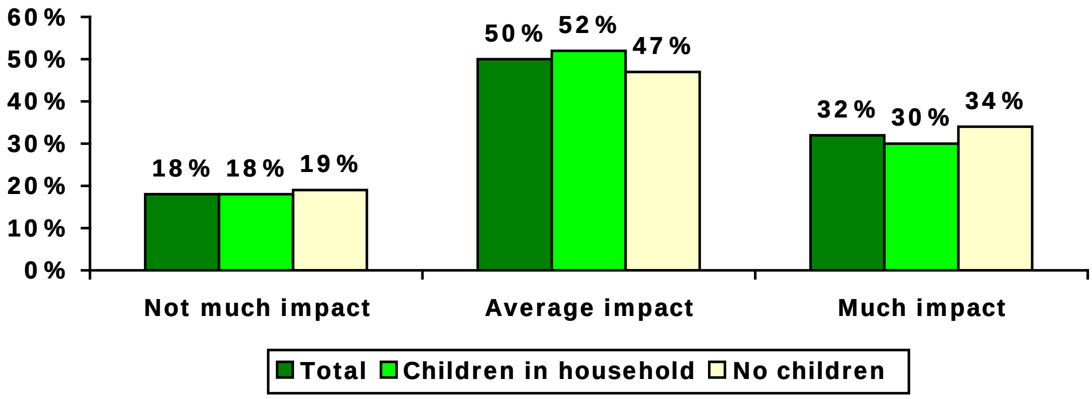
This chapter of the report presents the results of the primary research conducted by the research team. The chapter is informed by three research methods: the resident survey, the stakeholder workshops and the stakeholder interviews. As we have conducted a resident survey in relation to research on financial exclusion in Salford, Manchester and Leeds, we will, where appropriate, compare the results of the resident survey Rochdale with the ones conducted in Salford, Manchester and Leeds.

The remainder of the chapter is organised into nine sections focusing on the impact of the recession (2), banking and transaction services (3), savings and assets (4), affordable credit and sub-prime borrowing (5), insurance (6), over-indebtedness (7), fuel poverty (8), financial capability (9) and groups at risk of financial exclusion (10).

4.2. Impact of the recession

Before turning to the extent and nature of financial exclusion, we briefly discuss the impact of the financial and economic crisis on the respondents. The respondents were asked to say how much impact the current economic situation or recession was having on their finances. The results are presented as a mean score where 1 is no impact at all and 10 was a great deal of impact (Chart 4.1).

Chart 4.1: Impact of recession on household finances



Base: complete sample (301)
Note: Not much impact is a rating of 1 to 3, average a rating of 4 to 7, much impact a rating of 8 to 10.

Views varied widely from 7% who said there was no impact to 11% who said it was having a great deal of impact. The average rating was 6.0. There was little difference in the experiences of different groups of people. A number of people had been made redundant and this obviously greatly affected their finances.

All respondents rating the impact on their finances as 5 or above were asked what this impact had been (Table 4.1), with some respondents giving reasons for the recession affecting them and others saying what the impact had been.

Table 4.1: Impact of the recession

	Total
Money tighter, things going up	49%
Can't go out / enjoy things / luxuries/ little extras	16%
Someone in household lost job or can't find job	15%
Hard to pay bills	9%
Prices up but wages / pensions / benefits have not	5%
Cut back on food	4%
Someone in household had hours reduced	3%
Just don't have enough/much money	3%
Someone in household had wages reduced	3%
Getting into debt	3%
Benefits tax credits refused / cut back	3%
Cut back on gas, electricity, heating	2%
No jobs around now	1%
Can't afford things for the children	1%
Other	1%
Getting into difficulties	1%
Threat of redundancy	1%
My house was repossessed	1%
This area is becoming run down	1%
Declared bankrupt	*
Cannot get any loan/credit	*
Have to help family (grown up children) out	*
Base: Number rating impact 5 or more	205

Source: Resident surveys conducted in Rochdale in July and August 2010

The main comments process of food and/or utilities were going up and money was ‘tighter’. However, 15% of this group said that someone in their household had lost their job or had been made redundant and a further 3% were on short-time or had not had much work (such as builders or self-employed people).

4.3. Banking and transaction services

Promoting the ownership and active use of a bank account among financially excluded households is one of the most important tools in promoting financial inclusion. It links financially excluded consumers to the mainstream financial sector and potentially enables them to access cheaper deals and build a credit record.

Table 4.2 displays the proportion of the respondents without a bank account and reasons for not having one.

Table 4.2: Banking and transaction services (%)

	Rochdale	Salford	Manchester	Leeds
Banking and transaction services				
No bank account	**17%**	18%	27%	30%
No debit card	**30%**	52%	53%	69%
No cheque guarantee card	**92%**	69%	65%	67%
Sample	**301**	500	411	410
Reasons for not having bank a/c				
Refused account	**10%**	8%	17%	16%
Little / no money to put in	**24%**	53%	28%	50%
Use post office to collect benefits	**60%**	30%	51%	26%
Not enough ID	**0%**	3%	0%	0%
Concern about charges	**2%**	--	--	--
Afraid to get overdrawn	**2%**	--	--	--
Sample	**50**	91	112	123

Source: Resident surveys conducted in July/August 2010 (Rochdale), April 2008 (Salford), June 2006 (Manchester) and January 2004 (Leeds)

Around 17% of the respondents did not have any form of bank account. This is higher than the proportion of households without an account nationally. According to the 2008/09 Family Resources Survey, 3% of households in Great Britain did not have any form of account. This figure rose to 10% for households with a weekly income below £100 and 6% for households with a weekly income between £100 and £199. It should be noted that the FRS figures also include POCA holders (around 6% of households have such an account).

The data on bank account ownership in Rochdale compares more favourably with the equivalent data in Leeds, Manchester and Salford. Compared with Manchester and Leeds, fewer households appear to be unbanked (i.e. without any form of bank account) in Rochdale, while a similar proportion of households unbanked compared with a more recent survey conducted in Salford. This probably reflects a greater push for housing allowances and other benefits to be paid into bank accounts rather than POCA or in cash over the past few years.

A total of 10% of respondents had tried to open an account in the past three years and been refused. Of the 30 respondents who had been refused an account, 17 have a bank account now. They may have found another provider who was able to offer them account, returned at a later time with the appropriate ID or been able to open a different type of account. The main reason for not being able to open an account was a lack of ID. It is possible that in some cases this was because the respondent had not taken the ID with them rather than they did not have the ID at all. Social housing tenants, those in privately rented accommodation and lone parents were more likely than others to have been refused an account. In total 4% of the respondents had been refused and did still not have an account.

This would suggest that outright refusal to open bank accounts on behalf of banks is not necessarily the most important driver of financial exclusion. Rather the results suggest that households either prefer not to use bank accounts or consider them inappropriate for their circumstances. This largely conforms to the findings of research elsewhere (Collard et al., 2001, Fuller et al., 2003). The main reasons for not having a bank account were that people had no money to put into an account (24%) or that they used the post office to collect their benefits or pension (60%).

Table 4.3 displays the access to bank accounts by type of household (%).

Table 4.3: Access to banking services by type of household (%)

	Sample	**No bank account**
Owner occupier	98	10%
Social housing	167	22%
Private rented	35	11%
18-29	99	12%
30-44	83	22%
45-59	68	16%
60+	51	18%
White British and Irish	194	18%
Asian	91	11%
Lone parent	38	26%
Couple with children	87	10%
Pensioner only household	75	20%
Disabled or ill person in household	101	23%
Working	136	8%
Workless household	165	24%
Total	**301**	**17%**

Source: Resident survey conducted in Rochdale in July and August 2010

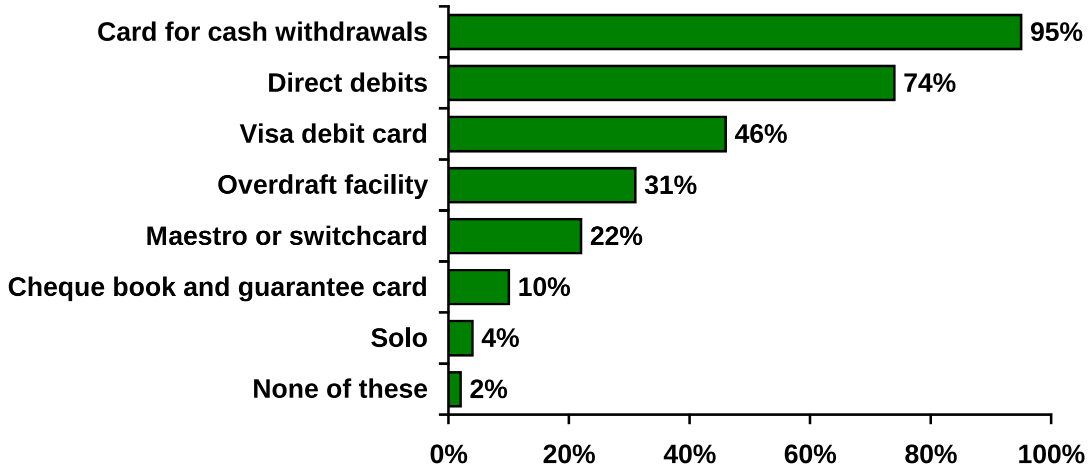
Not surprisingly a higher proportion of owner occupiers (90%) had a bank account, than social housing tenants (78%). Workless households (76%) were less likely than working households to have a bank account (92%).

There are numerous reasons for why these households are less likely to own and especially use a bank or current account. People in low-wage, temporary work are more likely to be paid in cash rather than via automated cash transfers reducing the perceived need to have and use a bank account (Kempson et al., 2000). They are also more likely to prefer to operate their budgets on a cash basis often because they find it easier to manage their money in that way and because they want to avoid bank fines for unpaid direct debits.

As we discuss in Section 4.8, the majority of the residents surveyed in Rochdale either paid their fuel bills in cash or operated with a pre-payment meter. Social housing tenants, lone parents and workless households are particularly likely to opt for prepayment meters. This means that these households are likely to have higher fuel bills. It also suggests that ensuring that households have bank account is in itself not sufficient, as many households appear to continue operating on a cash basis despite owning a bank account.

Chart 4.2 displays the account facilities that the respondents had available.

Chart 4.2: Account services used



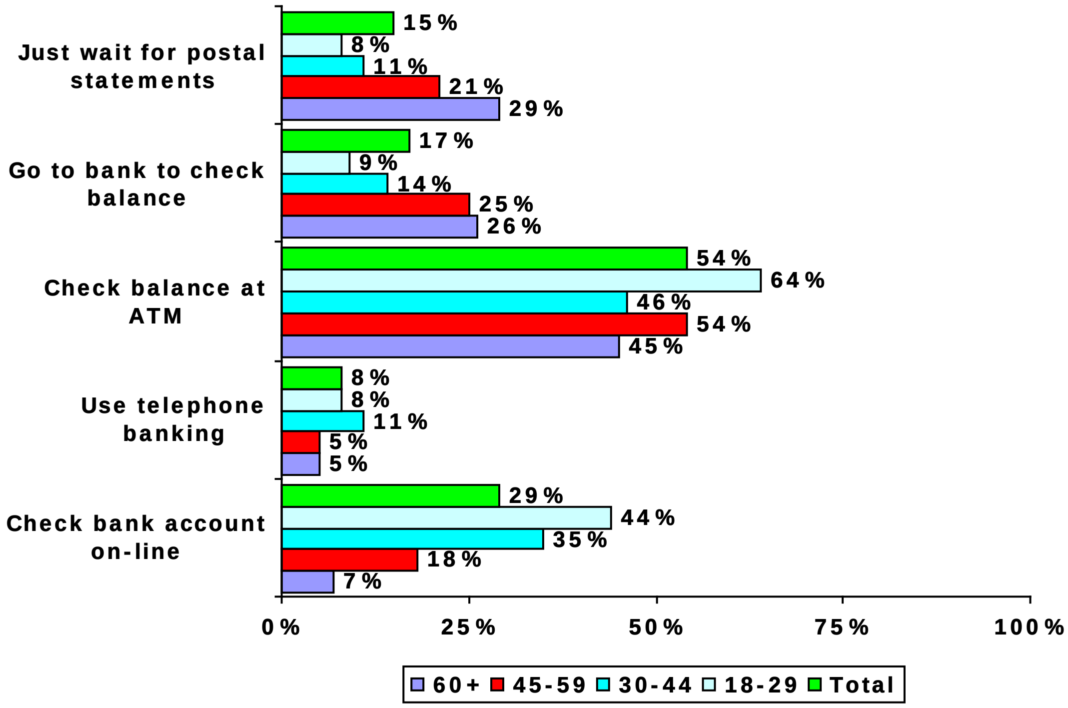
Base: All bank account holders (251)
Source: Resident survey conducted in Rochdale in July and August 2010

Of those with bank accounts, 95% had a card for cash withdrawals, 74% could use direct debits, 46% had a Visa debit card, 22% a Maestro or Switch Card and 4% a Solo card, with overall 63% of respondents having one of these debit cards. Ten percent had a cheque book and cheque guarantee card. One in three respondents with a bank account had an overdraft facility, with owner occupiers, people aged 30-44 and people with higher incomes being more likely than others to have this facility.

All account holders were asked how many times in the past three years they had incurred bank charges because they have been inadvertently overdrawn. Thirty-seven percent of all the bank account holders had incurred bank charges of inadvertently going overdrawn: 9% said this had happened once, 12% 2-3 times, 3% 4-5 times and 13% more than five times. People aged over 60 were very unlikely to have incurred bank charges but 17% of those aged 18-29 and 15% of those aged 30-44 had incurred charges more than five times. Asian respondents were less likely to have incurred bank charges on 5 or more occasions than White respondents. People in receipt of benefits or working tax credit were slightly more likely to have incurred bank charges than others.

Chart 4.3 shows how the respondents check their bank balance.

Chart 4.3: How respondents check their bank balance by age

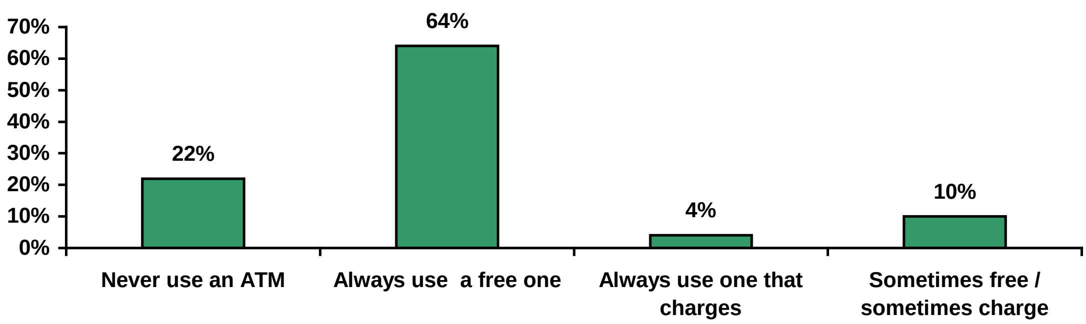


Base: all bank account holders (251)
Source: Resident survey conducted in Rochdale in July and August 2010

Just over a quarter of the sample (29%) said they checked their bank account balance online, 8% used telephone banking, 54% checked their balance at an ATM and 17% went to the bank to check their balance. A total of 15% only used the postal statements to check their balance. Older respondents were far more likely than others to rely on postal statements (29%) of those aged over 60 and 34% of pensioner only households). People aged 18-29 were the most likely to check balances on line.

Chart 4.4 shows the use of cash machines among the respondents.

Chart 4.4: Use of cash machines



Base: complete sample (301)
Source: Resident survey conducted in Rochdale in July and August 2010

A total of 22% of respondents said that they never used a cash machine with 64% saying that they always use a cash machine which did not charge. Overall, 10% of respondents said that they sometimes used a machine which charged and 4% always used a machine what charged. Lone parents and people aged 18-29 were slightly more likely than others to use an ATM which charges. Respondents in Heywood township (26%) were the most likely to use a machines which charged compared to 19% in Pennines township, 5% in Middleton township and 12% in Rochdale township.

When asked why they used a machine which charged, the following reasons were given:

- I sometimes use the one which is closest (20 respondents)
- All machines in this area charge (5 respondents)
- Sometimes you are somewhere where there are no free ones available (5 respondents)
- Free ones can be out of order or have no money left (4 respondents)
- If I need the money urgently (4 respondents)
- Sometimes it is easier (1 respondent)
- Free ones are too far for me to travel (1 respondent)

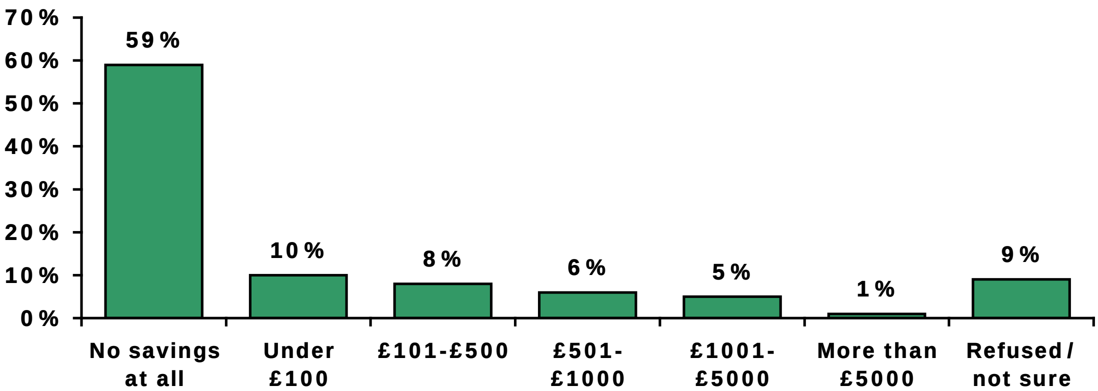
A third of respondents (34%) with a bank account used the cash-back service from a supermarket or other store. People in working households (43%) were more likely than those in workless households (25%) to use this service.

4.4. Savings and assets

Encouraging households and individuals to save in the form of pension policies, regular savings accounts and stocks, has been a key concern for the UK government, as households and individuals who save may be in better position to cope with income shocks, life-cycle events (e.g. old age and retirement) and expenditure hikes without relying on the public safety nets.

Chart 4.5 displays the level of savings of the respondents of the survey in Rochdale.

Chart 4.5: Level of savings



Source: Resident survey conducted in Rochdale July and August 2010.

Nearly 60% had no savings at all with a further 10% having under £100. This is higher than the proportion of households in Great Britain with no savings which according the Family Resources Survey was 28% in 2008/09. The savings rate in the survey in Rochdale also compares unfavourable with the Family Resources Survey data for the lowest income groups, which are between 41% and 44%.

As Table 4.4 shows certain groups are less likely to save than other.

Table 4.4: Households with no or limited savings by group (%)

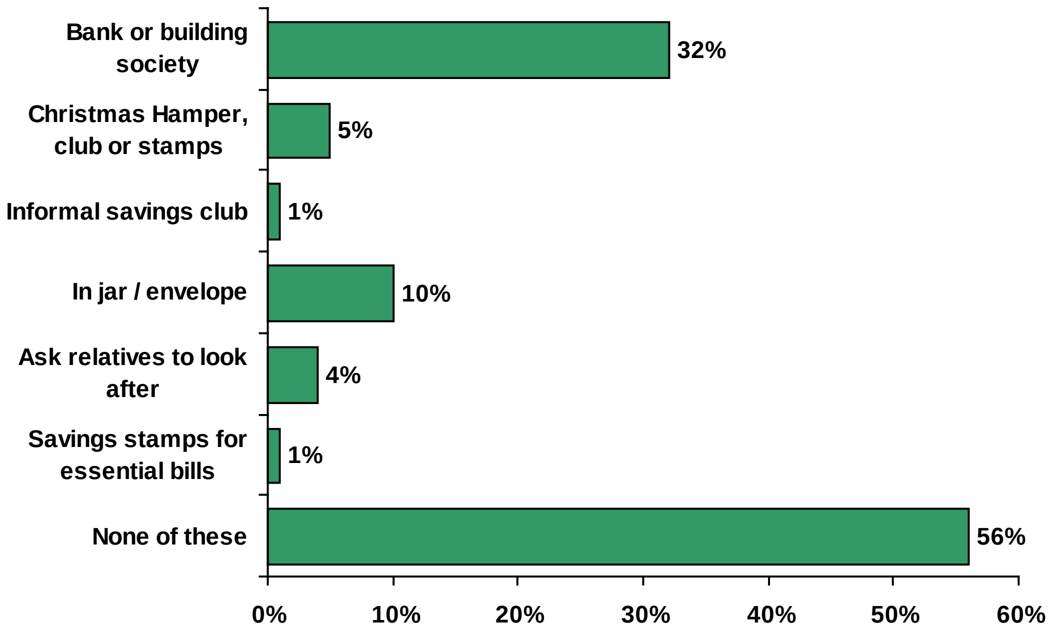
	Base	No savings / > £100
Owner occupier	98	53%
Social housing	167	78%
Private rented	35	77%
18-29	99	75%
30-44	83	70%
45-59	68	79%
60+	51	47%
White British / Irish	194	72%
Asian	91	66%
Lone parent	38	84%
Couple with children	87	71%
Pensioner only	44	50%
Disabled household	101	76%
Working	136	60%
Workless household	165	78%
Total	**301**	**70%**

Source: Resident survey conducted in Rochdale in July and August 2010

Around 60% had no savings at all with a further 10% having under £100. This rose to 84% of lone parents who had no savings at all or had less than £100. Owner occupiers were far more likely to have some savings than other tenures. A total of 53% of owner occupiers had no savings at all or less than £100 compared with 78% of social housing tenants and 77% of private sector tenants. A total of 78% of workless households had no savings at all or less than £100. Older people were far more likely to have savings.

Chart 4.6 shows how respondents save.

Chart 4.6: How respondents save money



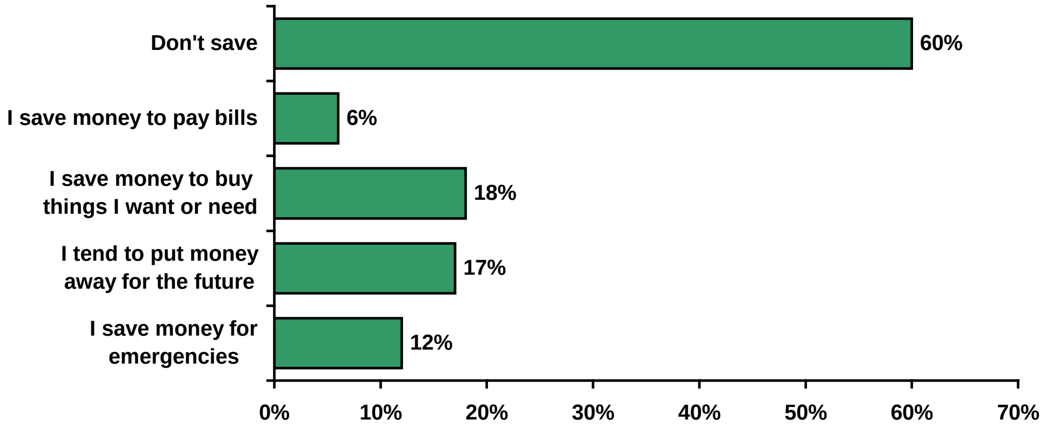
Source: Resident survey conducted in Rochdale July and August 2010.

A total of 32% of respondents (Table 4.2) had a bank or building society savings account, although about many of these accounts must have little or no money in them. Owner occupiers (47%) were more likely than those in social housing (23%) or those who rent privately (26%) to have a bank or building society account. Asian respondents (41%) were more likely than White respondents (27%) to have a bank or building society savings account.

A total of 10% of respondents said they put aside money in an envelope or a jar. Some of this would be saving to pay bills. Small numbers of respondents used informal methods of savings: a Christmas Hamper, Christmas Club or Christmas stamps (5%); informally with work colleagues, friends, pardners or the committee system (1%); asking a relative to look after money for you (4%) or savings stamps for essential bills (1%). More than a half of the sample (56%) did not use any of these methods for saving. No respondents used a Credit Union for saving.

Chart 4.7 displays the reasons for saving given by the respondents.

Chart 4.7: Reasons for saving

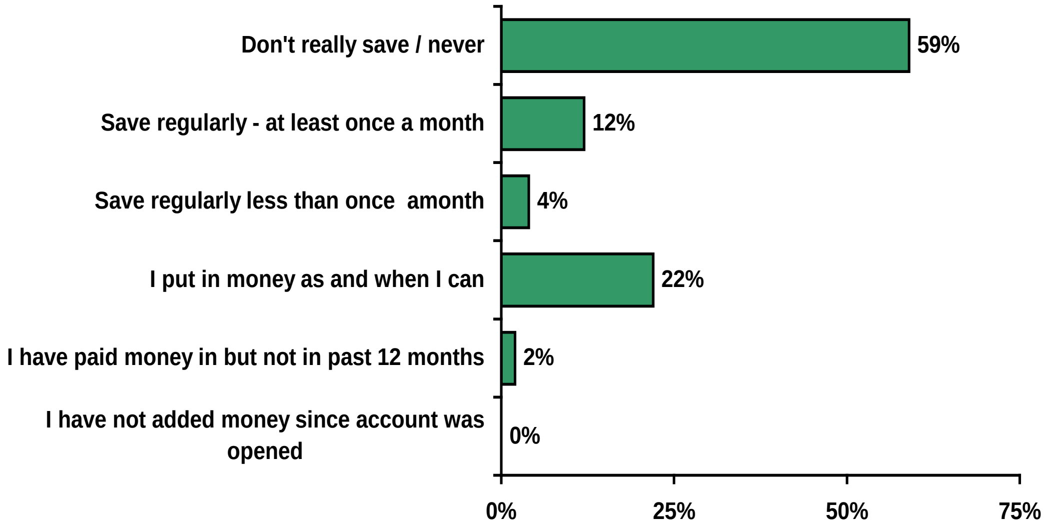


Source: Resident survey conducted in Rochdale in July and August 2010.

Overall, three in five of the respondents (60%) did not save at all but 18% said they saved to buy things they wanted or needed and 6% saved to pay bills. Overall, 17% of respondents said they saved for the future and 18% saved for emergencies.

Chart 4.8 displays how often the respondents save.

Chart 4.8: Frequency of saving



Source: Resident survey conducted in Rochdale in July and August 2010.

Nearly 60% of the respondents stated they did not really save and 22% said they only paid money into a savings account as and when they could. A total of 12% said they saved regularly, at least once a month and 4% said they saved regularly but less often.

4.5. Affordable credit and sub-prime borrowing

In light of the often very high financing costs faced by financially excluded households, an important item on the financial inclusion agenda has been to ensure that households have access to mainstream loans or affordable credit through the third sector. There are numerous indicators for the inability to access affordable finance. In this section, we look at use of mainstream and sub-prime borrowing, and refusal of credit, often referred to as credit exclusion.

Table 4.5 shows the proportion of households in Rochdale who have been refused credit in the last two years. It also compares the survey results in Rochdale with those in Salford, Manchester and Leeds.

Table 4.5: Credit exclusion (%)

	Rochdale	Salford	Manchester	Leeds
Refusal credit				
Refused credit	**12%**	13%	16%	9%

Source: Resident survey conducted in Rochdale in July and August 2010

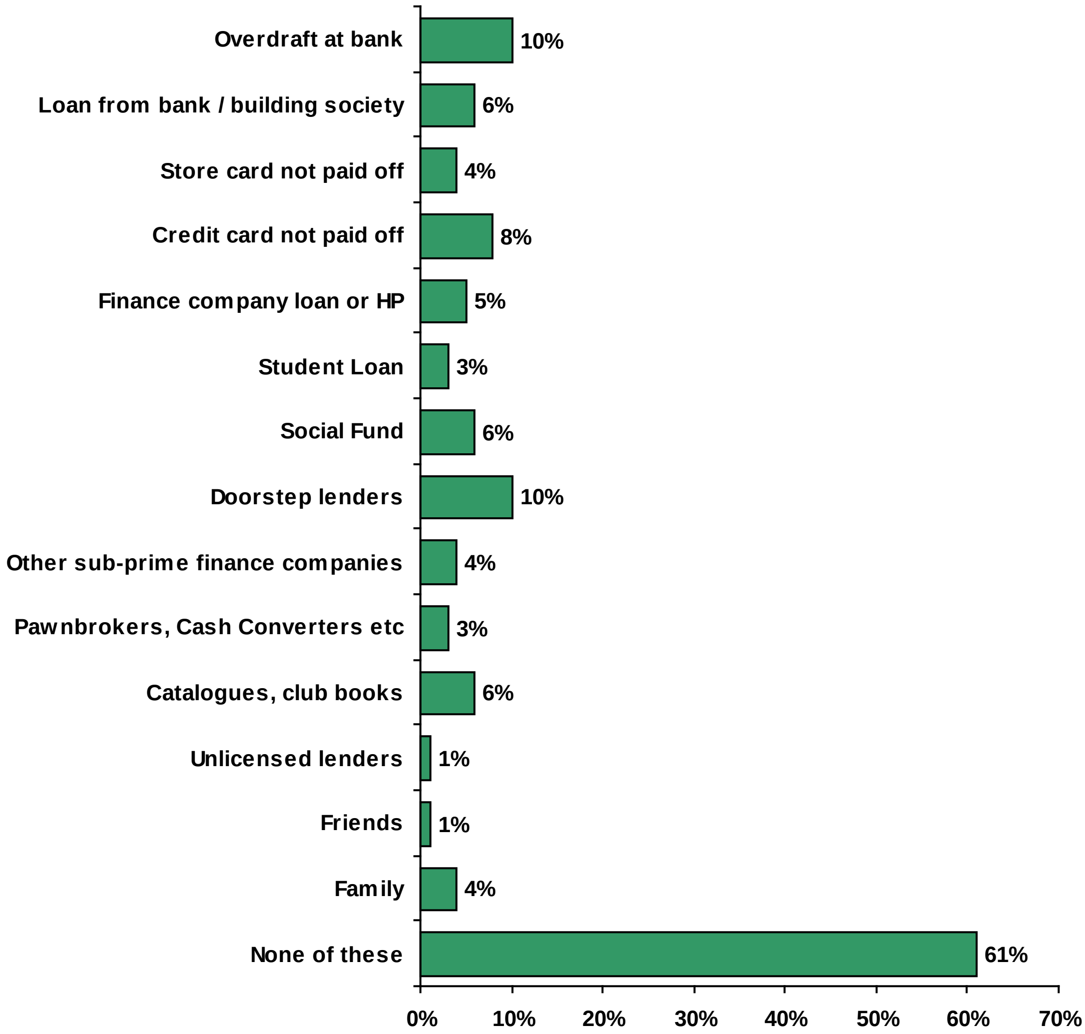
Around 12% of the households surveyed said they had been refused credit in the past 2 years. This is almost the same as in Salford, slightly lower than in Manchester and higher than in Leeds. Overall, 12% have been given any credit they wanted and 75% said they had not asked for any credit. People renting were more likely to have been refused credit than owner occupiers. People aged over 60 were unlikely to have asked for credit and only one respondent in this age group had been refused credit. Asian respondents were less likely than White respondents to have been refused credit. Lone parents and couples with children were the most likely to have asked for and been refused credit.

When asked why they thought they had been refused credit 11% said they did not know why they had been refused as the potential lender had not given a reason or just said “the computer has refused it”. A total of 54% thought it was because they had a bad credit rating or a poor credit history.

Although an obvious indicator of credit exclusion is may be misleading as often financially excluded households may not even try to apply for mainstream finance as they assume that they will not pass the credit scoring or believe that mainstream banks are “not for them” (Collard et al., 2001, Fuller et al., 2003).

Thus, another manifestation and measure of exclusion from the mainstream banking sector is the extent of use of sub-prime borrowing. Chart 4.9 displays the proportion of respondents who currently have credit and the type of credit.

Chart 4.9: Current sources of credit (excluding mortgages)



Source: Resident survey conducted in Rochdale in July and August 2010.

A total of 39% the respondents had some form of credit or borrowings excluding mortgages. People aged over 60 were less likely to use credit (24%). A total of 33% of owner occupiers had some form or credit or borrowings other than a mortgage, compared with 41% of social housing tenants and 46% of respondents in privately rented accommodation. Asian respondents were less likely than White respondents to have any form of credit (other than a mortgage).

A total of 10% said they had a bank overdraft, rising to 19% of those aged 30-44. A total of 8% had a credit card account which was not paid off, 6% a bank or building society loan and 5% had a finance company loan or HP agreement (some of which were fairly high interest). Overall, 25% of the respondents were currently using one or more of these ‘regular’ forms of credit.

Only 1% or two respondents reported resorting to unlicensed moneylenders. However, it is notoriously difficult to produce reliable estimates on the use of unlicensed moneylenders. People are likely to be reluctant to disclose if they are borrowing from such lenders, so this figure is likely to be an underestimate. Ellis et al (2006) estimate that around 165,000 households, or 0.44% of the UK population, resort to illegal moneylenders in the UK, but note that this is probably an underestimate as it relies on the level of use as reported by the households themselves. Such moneylenders are particularly prevalent in tower blocks as the access to loans through home credit companies operating with agents is often difficult.

Table 4.6 shows sub-prime and mainstream borrowing by type of household.

Table 4.6: Extent of use of sub-prime borrowing (%)

	Base	Mainstream credit only*	Sub-prime credit**	No credit***
Owner occupier	98	21%	8%	67%
Social housing	167	14%	21%	59%
Private rented	35	17%	23%	54%
18-29	99	16%	21%	58%
30-44	83	24%	17%	52%
45-59	68	13%	15%	66%
60+	51	10%	12%	76%
White British / Irish	194	19%	23%	53%
Asian	91	12%	5%	79%
Lone parent	38	11%	39%	47%
Couple with children	87	22%	15%	55%
Pensioner only	44	7%	9%	82%
Male	143	12%	12%	68%
Female	158	21%	22%	55%
Disabled or ill person in household	101	11%	19%	64%
Working	136	29%	13%	57%
Workless	165	7%	20%	64%

Source: Resident survey conducted in Rochdale, July and August 2010

Notes: *Includes bank overdraft, bank loans, credit cards and HP but may also include some high interest finance company loans; **Includes doorstep lenders such as Provident, unlicensed lenders, pawnbrokers, companies such as Shoppacheckers, pay day lenders, unsecured loans, catalogues and club books; ***Includes households that have mortgages but no other forms of borrowing

Around 17% of the respondents reported resorting to sub-prime credit borrowing, with the most common forms being home credit companies, licensed finance companies and catalogue instalment credit. The real figure is likely to be higher given that households may often be reluctant to disclose their borrowing.

People in social housing (13%) or privately rented housing (14%) were more likely than owner occupiers (2%) to use licensed lenders such as the Provident where weekly payments are made, often at the door. Overall, 13% of respondents had credit with sub-prime lenders such as the Provident or similar, an unlicensed lender, Shoppacheckers, payday lenders, Money Shop or with pawnbrokers.

The following groups were more likely than average to use these sub-prime lenders:

- People in social housing (17%)
- People in privately rented housing (20%)
- Lone parents (34%)
- People aged 18-29 (18%)
- People with no savings (16%)
- People with mental health problems (35%, but treat result with caution as based on only 20 respondents)

Asian respondents were very unlikely to use these sub-prime lenders (2%).

Respondents were asked to say what their total level of credit, loans or borrowings were, excluding mortgages. A total of 75% of those with credit gave a figure. Table 4.7 displays the amounts of borrowing by tenancy.

Table 4.7: Current levels of borrowings

	Total	Owned	Social housing	Rented private landlord
Less than £100	2%	3%	2%	-
£101-£250	6%	2%	7%	9%
£251-500	7%	3%	8%	11%
£501-£1000	5%	2%	7%	3%
£1001-£5000	6%	7%	5%	9%
£5001-£10k	4%	4%	4%	6%
> £10k	1%	-	1%	3%
No reply	7%	7%	7%	6%
No borrowings	62%	71%	59%	54%
Base: complete sample	301	98	167	35

Source: Resident survey conducted in Rochdale, July and August 2010

Overall, 2% of the sample had borrowings of less than £100 and 6% of £101 to £250). However, 5% of the sample overall had borrowings (excluding mortgages) in excess of £5000. The total amount of credit for the 92 respondents who gave a figure was about £215,000, an average of £2350 per household. The average level of credit figures are skewed by the small number of households with large borrowings, with 44% of those giving a figure having borrowings of £1000 or less. In general, households where people were in paid employment owed more money than those in workless households.

In general, respondents were not clear about the amount of interest they paid. Only about a third of people with each type of credit or borrowing claimed to know what interest they were paying. Overall, of the 165 instances of credit covered by this question, the interest rate was known for 37%. However, some of these were probably incorrect. For example, some respondents who thought they knew the interest rate of the Provident thought it was under 50%. However the APR for a typical loan from Provident is currently 292.9%.

The main reasons for taking out a loan or credit (excluding mortgages) was to cover day-to-day living expenses or household bills such as electricity (35% of those with credit or borrowings), buy large household items (31%), buy clothing (26%), pay of other debts (16%) or buy a car or motorbike (11%).

Table 4.8 lists the reasons for choosing a particular form of credit.

Table 4.8: Reasons for choosing a particular form of credit

	Total	Has sub-prime credit
Rate of interest	19%	2%
Being able to borrow relatively small sums	6%	10%
No need for security or guarantees	12%	18%
Available locally	6%	12%
Repay weekly/fortnightly in small sums	19%	39%
Collect form the door	13%	29%
Simple, no complicated forms	12%	24%
Know the collector / catalogue	2%	4%
Only option available	28%	22%
Other/ none of above	15%	-
Base: All with borrowings or credit	113	51

Source: Resident survey conducted in Rochdale, July and August 2010

When asked why they had chosen this particular form of credit, the most frequently given response was that it was easy or convenient. Others said it was the best interest rate or deal available at the time. Some, mainly those with catalogue or club book credits mentioned they liked being able to make small regular payments. However, some respondents, particularly those with some of the more expensive forms of credit said that they did this because it was the only credit they could get.

The most frequently cited reason was that this was all they could get. Other reasons were that that one could make small regular repayments (19% of those with credit) or it was a low rate of interest (19%). However, 13% of people with credit said it was because it was convenient that they collected from the door and 12% that they did not need to provide any security. For respondents with high interest or sub-prime credit, the main reasons were being able to make small regular repayments, door step collection, lack of complicated forms, the only option available the lack of security required. In terms of the use of unlicensed moneylenders, research shows that people invariably resort to such lenders because they lack other legitimate credit options (Ellison et al, 2006).

4.5.1. The cost of sub-prime borrowing

Thanks to the Competition Commission inquiry into Home Credit (2006) the data on its usage has been enhanced. However, it is still not possible to produce data on a geographic basis (understandably this information is protected by the loan companies). Prior to the inquiry national data on the extent of use of doorstep lending is extremely limited; invariably based on supposition rather than empirical evidence.

The Competition Commission estimated that there were 2.3 million customers in 2005, with Provident Financial (incorporating Greenwoods) the largest supplier with 60% market share (1.38 million customers – now up to 1.65 million (Urry 2008)). This suggests that 3.9% of the population is using home credit. As would be expected this is weighted towards those on low-to-modest incomes (60% of clients are from social class D and E) and more strikingly, tenure (74% of clients are in social housing). Overall, the 2.3 million customers borrowed £1.3 billion in 2005 at an average of £565 per customer.

The price of the credit was, until the inquiry, a matter of dispute. When Murphy (2003) argued that Provident charged an annual percentage rate (APR) of 185% on a typical loan it was by them, though they did that their typical rates were closer to 177% (BBC 2003). This was later confirmed by the Competition Commission, though they also found that home credit providers (including Provident through Greenwoods) were charging up to 500% APR on certain loan products. Since the inquiry Provident have raised their standard rate to 272.2% (Provident Financial website accessed on the 28 January 2011) for loans up to £500. It is unknown what the competition is charging, though as Cattles undertook £200million rights issue in 2010 they are likely to increase their charges. The Competition Commission found that the five most popular products across the sector had the following profile

TABLE 3.1 **Large lenders: principal products, 2005**

Lender	*Weekly payment £*	*Term (weeks)*	*TCC £*	*APR %*	*Number of advances*	*Average advance £*	*Total advanced £'000*	*Average weekly payment £*
Cash loans								
PPC	3.00	55	65.00	177.0		396		11.89
GPC	5.00	32	60.00	399.7		236		11.79
PPC	1.80	105	89.00	102.7		1,077		19.39
Cattles	3.40	52	76.80	246.5		401		13.64
Cattles	5.30	30	59.00	440.3		230		12.19
PPC	2.25	80	80.00	132.5		914		20.56
PPC	5.00	31	55.00	365.1		220		10.99
S&U	4.00	41	64.00	281.0		359		14.34
LSB*	4.70	34	59.78	353.8		299		14.06
PPC	6.40	23	47.20	497.4		202		12.94
Mutual†	1.52	102	55.04	59.2		-		-
LSB*	3.25	50	62.48	194.7		739		24.01
S&U	3.33	50	66.67	213.0	✂	483	✂	16.10
S&U	5.00	32	60.00	399.0		255		12.77
Mutual†	2.75	51	40.25	104.9		-		-
LSB	2.14	100	114.41	149.7		944		20.19
GPC	3.20	53	69.60	206.8		407		13.04
LSB*	5.22	20	17.72	76.6		143		7.48
S&U	2.50	70	75.00	148.0		1,047		26.17
Vouchers								
PPC	5.00	25	25.00	152.3		112		5.61
Cattles	3.00	50	50.00	148.1		223		6.69
PPC	2.70	50	35.00	90.5		241		6.51
PPC/GPC	3.00	45	35.00	104.3		232		6.95
GPC	5.00	27	35.00	222.7		96		4.78

Source: CC from company data.

*This cash loan product was offered in 2005 through Morses.
†Mutual confirmed that the prices of its products did not change in 2005. However, it was unable to supply updated volume data. The value of loans advanced by product is therefore from 2004. Mutual could not supply any figure for the number of loans advanced for each of its products as it does not record this information.

What we are unable to ascertain is the respective market share, but it is likely that Provident's standard loan product dominates the market. By comparison a loan from Manchester Credit Union (MCU) will be charged at 26.8%, while East Lancs Moneyline (Elm) which serves an identical market to the Provident charges a maximum of 49%. In the market served by doorstep lenders the rates charged by High Street banks and building societies are irrelevant; firstly, because the customer base have been unable or are unwilling to access these providers; and secondly, the loans required, usually below £500, are unavailable.

In addition doorstep lenders will correctly highlight the greater financial risks involved in lending in their market and the cost of service. Both of these have resulted in higher interest rates than charged by the banks. Moreover, Home Credit providers do not charge for missed payments (in effect this is built into the APR). They also argue that APR is problematic when assessing loans over a short time span.

The Competition Commission (2005, p.7) accepted all these negating facts but still found: 'Thus, while not all the evidence pointed the same way, on balance our findings led us to believe that, while home credit provided a service which was valued by its customers, the prices they paid were higher than they would need to be to reflect the costs of providing the service, and were higher than they would be in a competitive market.'

Provident's interest rate should not be perceived as exceptional; rather they are probably one of the most cost effective doorstep lenders in the market. For example research into moneylenders (Jones 2002) identified rates in excess of 900%. The interest will also be dependent on the size of the loan; with Murphy (2003) estimating the average loan being £486, and Provident stating it is nearer to £100 (BBC 2003). The Competition Commission found that the mean average loan was £335 in 2005 and that 70% loans were below £500.

Based on the preceding discussion it is possible to broadly estimate the probable upper and lower limits of the impact of using doorstep lenders in Rochdale. Firstly, we calculated and compared the cost of credit (Table 4.11). This was based on the mean average loan of £565 for the sector in 2005, plus an uplift allowing for cost of living rises, which brings the total to £600

However, we split this into two loans following the home credit sector's assertion that the average loan was about £335. In addition, according to the table above the two most popular loan products were both Provident Financial products of a small short-term loan of 399% and a year long loan of 177%.

Subsequent, we checked the contemporary figures on the Provident Financial website and these standard products now have APRs of 365.1% and 272.2% respectively. Consequently, our hypothetical client would borrow two loans per annum, worth £400 at 272.2% and £165 at 365.1%. As table 4.11 shows the total interest cost is £438 from Provident Financial, £72.77 from MCU and £137.03 from Elm. Thus home credit costs £365.23 more for the same credit than the credit union and £300.97 in excess of Elm.

Table 4.11: Cost of credit by

	Weekly repayment	Total to repay	Interest paid (£)	APR %	Term (no. of weeks)
Provident £400	£14	£728	£328	272.25	52
Provident £200	£10	£310	£110	365.1%	31
Total Provident £600	**£24**	**£1138**	**£438**	**--**	**--**
MCU £400	£8.81	£458.04	£58.04	26.8%	52
MCU £200	£8.26	£214.73	£14.73	26.8%	26
Total MCU Valley £600	**£17.07**	**£672.77**	**£72.77**	**26.8%**	**--**
Elm £400	£9.80	£509.66	£109.66	48%	52
Elm £200	£8.75	£227.37	£27.37	49%	26
Total Elm £600	**£18.55**	**£737.03**	**£137.03**	**49%**	**--**

As noted above 3.9% of the population use home credit, which would equate to 4,935 people in Rochdale (based on census population of 126,540 working age adults). Thus the excess cost of using home credit in Rochdale would be £1,802,410 above use of Manchester Credit Union and £1,485,287 more than Elm.

Our considered view is that the demographic of Rochdale and its proximity to the headquarters of Provident Financial, in Bradford, mean that it is likely to have a greater exposure to home credit than other locations. We would suggest that Rochdale City Council assumes there are at least 5,000 customers of home credit in the borough and these are costing citizens, in excess interest payments, in excess of £1,400,000 per annum.

This money is lost to the local economy. Moreover, as seen in the survey the majority of these clients will disproportionably be lone parents, workless households, and residents in disadvantaged areas.

4.6. Insurance

The access to and ownership of insurance is important to enable households to protect themselves against external shocks. Table 4.9 shows the extent of home content insurance ownership by type of household.

Table 4.9: Households without home contents insurance by group (%)

	No home contents insurance
Owner occupier	18%
Social housing	66%
Private rented	66%
18-29	59%
30-44	45%
45-59	51%
60+	43%
White British / Irish	53%
Asian	47%
Lone parent	71%
Couple with children	43%
Pensioner only	48%
Disabled household	54%
Working	32%
Workless household	66%
Total	**50%**

Source: Resident survey conducted in Rochdale, July and August 2010

Half the respondents (50%) said they had contents insurance. A higher proportion of owner occupiers (82%) had contents insurance but this fell to only 34% of social housing tenants and 34% of those with a private landlord. Overall, 49% said they did not have contents insurance and 2% were not sure. The group least likely to have content insurance were lone parents (only 29% with insurance).

When asked why they did not have contents insurance most respondents said that it was too expensive (76% of those without insurance). Others said they just did not bother, not got round to it or never thought about it (16%), that they had nothing worth insuring (or stealing) (4%) or that it was privately rented property (3%). Two respondents said they did not have insurance because they had a dog.

4.7. Over-indebtedness

Over-indebtedness is complex phenomenon closely linked to the financial inclusion agenda. It can be caused and sustained by a host of factors, including high finance costs, low income, life-cycle events, changing circumstances, income shocks and expenditure hikes. In this section we try to grapple with the extent and nature of this phenomenon in Rochdale by drawing on survey data, and national and local statistics on debt and repossessions.

Table 4.11 displays the number of mortgage and landlord possession claims issued and orders made between 2003 and 2009.

Table 4.11: Number of landlord and mortgage possessions* claims issued and orders made** in Rochdale 2003 to 2009

	2003	2004	2005	2006	2007	2008	2009
Landlord possessions							
Claims issued	940	1,075	1,015	810	665	705	595
Orders made	710	795	775	680	510	565	530
Mortgage possessions							
Claims issued	305	355	445	685	750	810	490
Orders made	190	215	270	445	485	645	440

Source: Data from the Department of Justice
Notes: * Covers local authority and private mortgage actions and social and private landlord actions
** Orders made include suspended orders

Before turning to the data in the above table, it is important to clarify the measures used. Claims issued refer to the moment when a claimant begins an action for an order for possession of residential property by issuing a claim in a county court. Conversely orders made refers to when a court, following a judicial hearing, grants an order for possession immediately, entitling the claimant to apply for a warrant to have the defendant evicted.

However, even where a warrant for possession is issued, the parties can still negotiate a compromise to prevent eviction. According to a report by the then Office of the Deputy Prime Minister (2005), only one notice in every 20 served leads to eviction.

Finally, it is important to note that the landlord possession claims issued and orders made are not only for rent arrears but also for anti-social behaviour. However, the vast majority claims and orders tend to arise from rent arrears (Office of the Deputy Prime Minister, 2005).

The data in Table 4.9 shows that landlord possession claims and orders increase from 2003 to 2004. From 2004 onwards they fall every year, except from 2007 to 2008 when they increase slightly. Overall landlord possession claims and orders fall by 25% and 20% respectively. Mortgage possessions claims and orders, conversely, increase throughout the period with exception of 2008 to 2009 when it falls. Overall claims and orders increase by 61% and 132% respectively.

These trends are likely to reflect changes among social housing landlords. According to a study by the Office of the Deputy Prime Minister (2005), possession actions by social landlords increased considerably in the decade leading to 2003. The report highlighted three likely drivers of the rise in possession actions:

- A rise in multiple indebtedness;
- Reduced responsiveness of housing benefits systems, due to increased demands on claimants and staff following the introduction of the Housing Benefit Verification Framework in 1998;
- A rise in employment rates among social tenants, especially in low-paid, temporary work, often led to discontinuation of housing benefits.

However, the study by the Office of the Deputy Prime Minister (2005) also found a decline in possession actions in 2003. The report highlights two possible drivers of this decline. First, in response to the problems experienced by their tenants, many social landlords moved “away from highly automated responses to rising arrears…in favour of increased staff discretion to determine appropriate action, and an emphasis on making personal contact with rent debtors rather than relying largely on postal communication” (Office of the Deputy Prime Minister, 2005, p.4). Second, by 2003 staff and tenants have had time to adjust to the changes in the housing benefit system (Office of the Deputy Prime Minister, 2005).

The data analysed above on mortgage and landlord repossessions in Rochdale provide us with important indicators on indebtedness. We saw a declining rate of landlord possessions caused by RSL rent arrears practices more sensitive to the circumstances of their tenants. Conversely, both mortgage possession claims and orders have increased considerably in Rochdale since 2004.

However, it is difficult to ascertain from such data the proportion of households affected by arrears and indebtedness, and their characteristics. Thus we now turn to the findings from the resident survey and the focus groups to analyse the extent and nature of debt problems on a household level.

Table 4.12 displays the level of worry of falling into debt among the households surveyed.

Table 4.12: Fears of falling into arrears (%)

	Rochdale	**Salford**	**Manchester**	**Leeds**
Fear of falling into debt				
Very worried	**21%**	14%	17%	16%
Fairly worried	**27%**	27%	22%	24%

Source: Resident surveys conducted in July/August 2010 (Rochdale), April 2008 (Salford), June 2006 (Manchester) and January 2004 (Leeds)

Overall, 21% of respondents were very worried and 27% fairly worried about getting into debt. The level of worry about being in debt was similar for many groups. Those least worried about being in debt were pensioner only households, people with savings and those on higher incomes. Lone parents and Asian respondents were slightly more concerned about being in debt than others.

Table 4.13 displays the percentage of households who reported being in arrears currently or having fallen behind on bills in the past two years.

Table 4.13: Households in arrears now / past 2 years (%)

	Rochdale		Salford		Manchester		Leeds	
	Now	**2 yrs**	**Now**	**2 yrs**	**Now**	**2 yrs**	**Now**	**2 yrs**
Any payment	**27%**	**36%**	19%	32%	--	--	--	--
Rent	**10%**	**14%**	6%	11%	7%	12%	3%	9%
Council tax	**4%**	**8%**	5%	10%	6%	9%	3%	11%
Water rates	**6%**	**9%**	8%	12%	8%	14%	3%	10%
Electricity	**6%**	**10%**	5%	8%	3%	6%	4%	7%
Gas	**8%**	**13%**	5%	8%	3%	6%	2%	6%
Telephone	**1%**	**4%**	1%	4%	3%	7%	4%	11%
Credit card bill	**2%**	**3%**	1%	1%	1%	2%	2%	3%
Catalogue payment	**1%**	**2%**	1%	2%	3%	5%	1%	2%
Bank overdraft	**0%**	**1%**	1%	2%	0%	1%	1%	1%
Informal loans	**2%**	**2%**	1%	0%	1%	1%	0%	1%
Sample	**301**		**500**		**411**		**410**	

Source: Resident surveys conducted in July/August (Rochdale), April 2008 (Salford), June 2006 (Manchester) and January 2004 (Leeds)

More than one in three respondents (36%) had fallen behind with one or more bill in the past two years and a quarter (27%) had outstanding bills at the time of the interview.

A total 4% had fallen behind with payments for a finance company loan such as the Provident or any other company with 2% being behind at the time of the interview. A total of 3% had been behind with a credit card bill, 1% with an overdraft and 1% with a bank or building society loan.

If respondents had more than one debt, they were asked which was causing them the most concern. Of the 38 respondents who currently had more than one debt, mortgage arrears, rent arrears and gas bills were causing the most concern.

Respondents were then asked why this bill (or the one bill if they were only in arrears with one) was causing them concern. Respondents were concerned about mortgage or rent arrears because they knew they could lose their home. Some respondents said that the bill that concerned them the most was the one they owed most on. Other respondents said the gas bill concerned them the most because they might be cut off. Some respondents they were concerned because they were being harassed for the payment with people knocking on their door or the bailiff calling.

Table 4.14 displays the proportion of respondents that have fallen behind with one or more payments by group.

Table 4.14: Proportion of sample who have fallen behind with one or more payments

	Base	In past two years	Current
Owner occupier	98	26%	16%
Social housing	167	42%	34%
Private rented	35	34%	29%
18-29	99	41%	31%
30-44	83	39%	30%
45-59	68	38%	29%
60+	51	16%	12%
White British / Irish	194	42%	32%
Asian	91	24%	18%
Lone parent	38	42%	32%
Couple + kids	87	62%	36%
Pensioner only household	44	7%	7%
Disabled/ill person in household	26	51%	41%
Working household	136	29%	21%
Workless household	165	41%	33%
Total	**301**	**36%**	**27%**

Source: Resident survey conducted in Rochdale, July and August 2010

The following groups were more likely than average to have fallen behind with payments:

- Social housing tenants (42% in last two years)
- People aged 18 - 29 (41%)
- People with children (42% of lone parents and 44% of couples with children)
- People with no savings or less £100 (42%)
- People with mental health problems (70%, but treat result with caution as based on only 20 respondents)

Fewer people aged over 60 (16%) had fallen behind with their bills. A third of those people with children were currently behind with one or more bills. A half of households where the respondent was aged under 45 and was claiming one or more benefits had fallen behind in the past two years.

Nationally, 25% of working age adults in the workless households were in arrears with one or more household bills, compared to 5% in fully working households (Monitoring Poverty and Social Exclusion, Joseph Rowntree Foundation 2009). A total of 33% of all workless households were in arrears with household bills which increases to 41% if pensioner only households are excluded. These figures cannot be compared exactly as the report cited does not list which bills are included under 'household bills' and this report might have included more items. However, they do indicate that in the most deprived parts of the Borough, the proportion of households in arrears with household bills is slightly above national the average.

A total of 14% of respondents had fallen behind with their rent and 10% were behind with their rent at the time of interview. This ranged from 23% of social housing tenants to 9% of those renting from a private landlord. A total of 8% of respondents had fallen behind with Council Tax, rising to 11% of social housing tenants. A total of

9% of respondents had fallen behind with their water rates, 13% with their gas and 10% with their electricity bills. A total of 9% had fallen behind with their TV licence and 4% with telephone or mobile phone bills. Overall, 3% of respondents had fallen behind with their mortgage and 2% were currently behind. This equated to 8% of owner occupiers having fallen behind in the past two years and 5% who were behind at the time of the interview.

All respondents who were currently behind with one or more bills were asked why it was that they had been unable to make the payment (Table 4.15).

Table 4.15: Reasons for not being able to pay all bills

	Total
Income not sufficient	52%
Unemployment, redundancy	19%
Ill health	15%
Short time working / lack of over-time	8%
Errors in Housing benefit	5%
Partner left me with debts	2%
Mental health problems	5%
Family break up	8%
Pregnancy / had a child	2%
Tax credit overpayments	2%
Other	5%
Debts incurred by other household member	3%
Not sure	1%
Base: all currently behind with bills	82

Source: Resident survey conducted in Rochdale, July and August 2010

Respondents were shown a check list of possible reasons. The most frequently cited reasons were unemployment or redundancy (19%) or that their income was insufficient to meet all their expenses (52%), ill health (15%) and short time working (8%). A total of 8% of those who were in arrears said it was due to family breakdown and 5% due to errors or delays in sorting out housing benefit payments.

A quarter of those respondents currently in debt said they had done nothing about it, but more than a third had made arrangements with creditors to repay their arrears. Others were looking for a job or trying to spend less and others had been for debt advice. Half of those respondents currently in arrears had contacted all their creditors, 16% had contacted some of them with a third (34%) not having contacted their creditors. When asked how helpful respondents found their creditors, views were mixed with 56% saying they were helpful, 24% neither helpful nor unhelpful and 19% that they were unhelpful.

4.7.1. Debt and financial exclusion as barrier to employment

A potentially very important effect of financial exclusion and over-indebtedness is that it may prevent people from accessing and sustaining employment. A recent study looking at the impact of debt on job seekers ability to find and sustain employment in Manchester by Gibbons (2010, p.8) found "some evidence that debt problems may impact on the chances of people sustaining work." The study found that for some of the interviewees debt repayments made people consider giving up their jobs, while others worked longer hours to pay debts with potentially adverse effects on health. It also led people to close their bank accounts as savings are drawn down and the incurring of bank charges, complicating return to work.

Table 4.16 shows the extent to which the respondents thought that problems with managing money and debts have caused problems with finding or keeping a job.

Table 4.16: Impact of debt and money problems on finding and sustaining employment

	Base	Caused difficulty
Total	301	15%
Owned	98	13%
Social housing	167	16%
Rented private landlord	35	14%
18 to 29	99	13%
30-44	83	14%
45-59	68	21%
60+	51	12%
Male	143	17%
Female	158	13%
White - British/Irish	194	14%
Asian	91	18%
Lone Parent	38	13%
Couple with children	87	11%
Single person living alone	26	23%
Pensioner only	44	11%
Unemployed and looking for work	52	35%
Disabled/long term ill person in household	101	22%
Working household	136	10%
Workless	165	19%
None or less £100	210	19%
£101-£1000	44	7%
More than £1000	20	5%
One or more debts in past 2 years	107	26%
No debts	194	9%

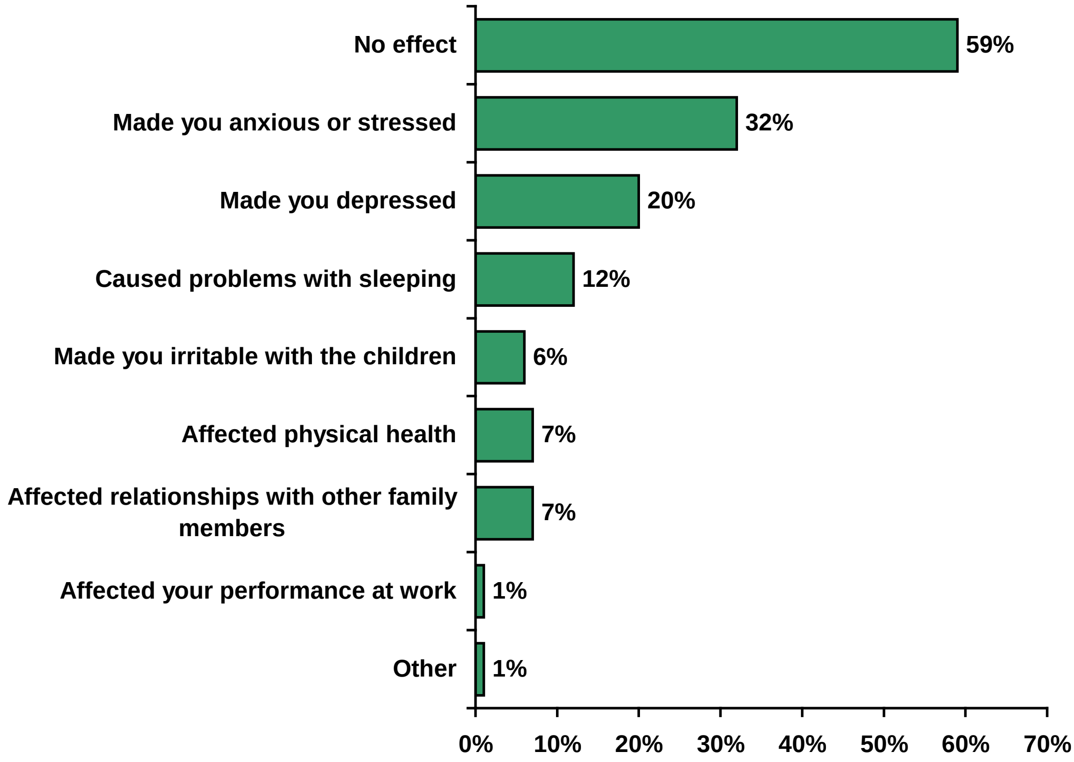
Source: Resident survey conducted in Rochdale, July and August 2010

Overall, 4% of respondents said that concerns about managing money or managing debts had made it very difficult for the respondents to find a job or to stay in work, with a further 11% saying it had made it quite difficult. A total of 18% said not much difficulty, 27% not difficult at all and 31% said it was not applicable as they had no problems managing money. A quarter of those who had been in arrears or debt in the past couple of years said it had caused them difficulty.

4.7.2. Impact of debt on health and wellbeing

Respondents were then asked specifically if they had suffered any health or well being problems as a result of concerns about managing money or debts (Chart 4.10).

Chart 4.10: Health and other effects of their financial situation



Base: complete sample (301)

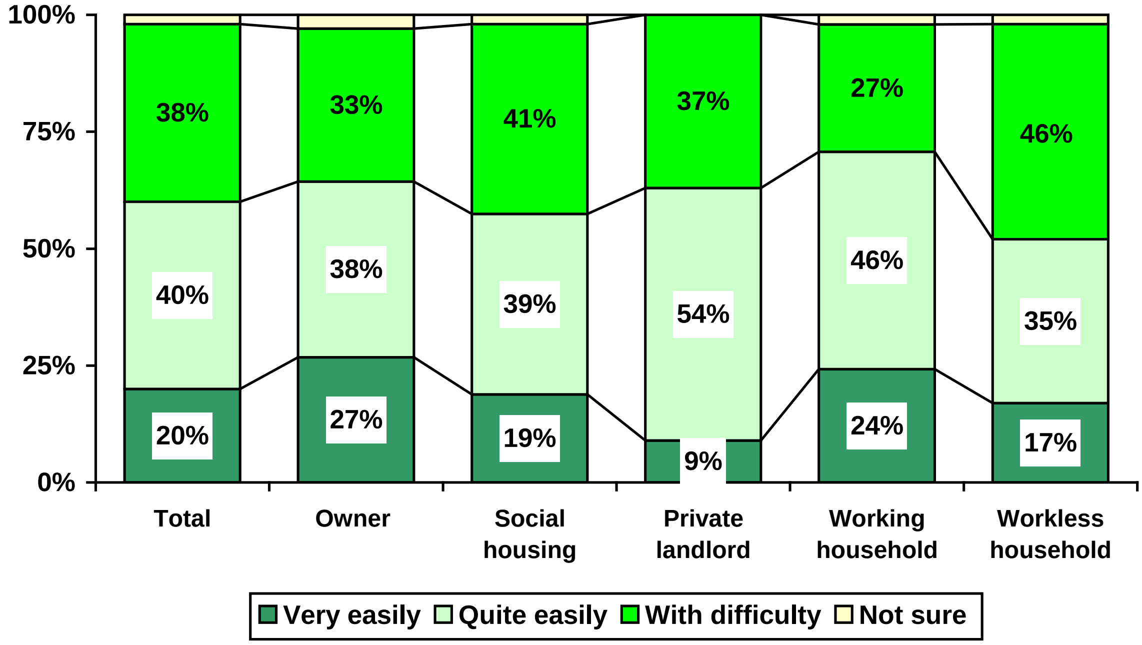
Three in five respondents (59%) said they had not been affected. However, one in three respondents (32%) said they had become anxious or stressed, 20% said their situation had made them depressed and 12% had had problems sleeping. Overall, 7% said their physical health had been affected, 7% their relationships with other family members and been affected and 6% said they became irritable with their children. Respondents who had been in arrears in the past two years were far more likely than others to have suffered these effects.

4.8. Fuel poverty

Given the recent price increases for gas and electricity and the likelihood of prices remaining high with possible future price increases, fuel poverty is again an issue of concern. Financial exclusion may make households more susceptible to fuel poverty because unbanked households do not benefit from the lower prices offered to those paying by direct debit and because over-indebted households may find it difficult to pay their fuel bills. In this section we explore the extent to which people were able to keep on top of their fuel bills, the way in which the respondents paid their bills and the relationship between the two. It must be remembered that this survey was conducted in the summer when pressure on fuel bills is at its lowest.

Chart 4.11 shows how well the respondents perceive that they are managing their fuel bills.

Chart 4.11: How well would you say you manage your fuel bills?



Source: Resident survey conducted in Rochdale July and August 2010.

A total of 38% of respondents said they were having some difficulty with managing to pay their fuel bills at the moment. It must be remembered that this survey was conducted in the summer when pressure on fuel bills is at its lowest. Overall, 20% said they managed very easily and 40% quite easily. However, a total of 26% said they had some difficulty and 11% said they found it very difficult.

Table 4.17 displays the proportion of those experiencing difficulty by household type

Table 4.17: Proportion who are having difficulties paying their fuel bills

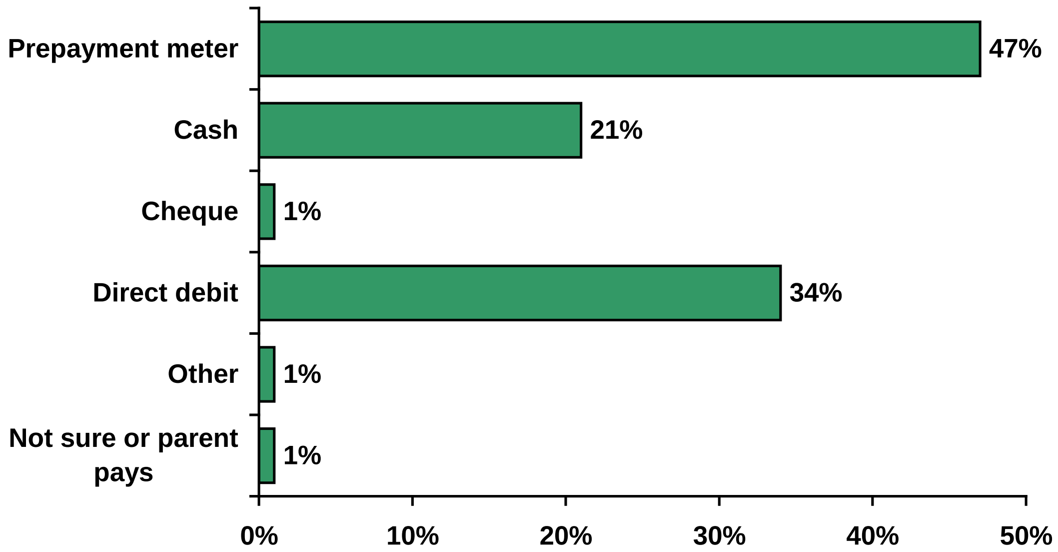
	Base	Have some difficulty or great difficulty
Owner occupier	98	33%
Social housing	167	41%
Private rented	35	37%
18-29	99	32%
30-44	83	33%
45-59	68	47%
60+	51	43%
White British / Irish	194	36%
Asian	91	45%
Lone parent	38	39%
Couple with children	87	38%
Disabled/ill person in household	101	49%
Working household	136	27%
Workless household	165	46%
Prepayment meter	141	42%
Pay by direct debit	102	29%
Total	**301**	**38%**

Source: Resident survey conducted in Rochdale, July and August 2010

People aged over 45, Asian respondents, workless households and people with prepayment meters were the most likely to report difficulties. People who paid their fuel bills by direct debit were less likely than all others to say they were having difficulties with paying their fuel bills. However, it is likely to be 'better off' people who pay by this method.

Chart 4.12 details how the respondents pay their fuel bills.

Chart 4.12: How respondents pay their fuel bills



Note: sums to more than 100% as people used different methods for different bills.
Base: complete sample (301)

A total of 44% paid their fuel bills by a card which they charged up and 11% used a key or token meter. Overall, 47% used a pre-payment method which can be more expensive, although, as found in other studies conducted by the research team, many people like this method as they cannot run up debts. Around 21% of the respondents said that they paid their fuel bills with cash and 1% by cheque. A total of 34% paid their bills by direct debit or standing order.

Table 4.18 shows the extent of use of prepayment meters and direct debit by household type.

Table 4.18: Proportion of sample with key meter, coin meter or payment card

	Base	Prepayment meter	Direct debit
Total	301	47%	34%
Owner occupier	98	19%	54%
Social housing	167	63%	22%
Private rented	35	46%	37%
18-29	99	49%	32%
30-44	83	49%	40%
45-59	68	62%	26%
60+	51	18%	37%
White British / Irish	194	59%	29%
Asian	91	23%	44%
Lone parent	38	74%	16%
Couple with children	87	46%	39%
Pensioner only	44	20%	39%
Disabled/ill person in household	101	55%	25%
Working household	136	35%	46%
Workless household	165	56%	24%
Income below £200 per week	94	57%	21%
Income £201-£300 per week	45	60%	22%
Income > £300 per week	42	24%	65%

Source: Household survey conducted in Rochdale in July and August 2010

Respondents in households where at least one person was in paid employment (46%) and owner occupiers (54%) were more likely than others to pay by direct debit. Asian respondents (44%) were more likely than White respondents (29%) to pay by direct debit, whereas White respondents (59%) were more likely than Asian respondents (23%) to have a prepayment meter.

A report for the Business and Enterprise Parliamentary Committee conducted in 2008 and reported in House of Commons Note SN/SC4948 January 2009 states that nationally 14% of households have a prepayment meter for electricity and 10% for gas, but that they are far more prevalent in low income households. Forty-seven percent pay for electricity by direct debit and 51% for their gas. Thus residents in the target areas for this survey (47%) far more likely than this national average to have a prepayment meter.

Awareness of potential price differences between fuel suppliers and capitalising on these may enable households to cut their energy bills and reduce the risk of or mitigate the consequences of falling into fuel poverty. Table 4.19 shows the proportion of households that have ever changed their fuel supplier.

Table 4.19: Whether or not respondents have changed their fuel supplier

	Base	Yes - have changed
Owner occupier	98	40%
Social housing	167	39%
Private rented	35	29%
18-29	99	27%
30-44	83	46%
45-59	68	50%
60+	51	29%
White British / Irish	194	43%
Asian	91	25%
Lone parent	38	39%
Couple with children	87	40%
Disabled/ill person in household	101	46%
Working household	136	43%
Workless household	165	34%
Prepayment meter	141	42%
Direct debit	102	40%
Total	301	38%

Source: Resident survey conducted in Rochdale in July and August 2010

The majority of respondents (88%) said they knew you could choose the company which supplies your electricity or gas. Asian respondents (81%) were less likely than White respondents (93%) to know this. Just over a third of the sample (38%) had changed their fuel supplier but 48% had not, with 4% saying they were not sure (such as young people living with their parents). People aged 45-59 were more likely to have changed supplier than younger or older people. The groups least likely to have changed were Asian respondents, people aged 18 to 29 and those in privately rented accommodation.

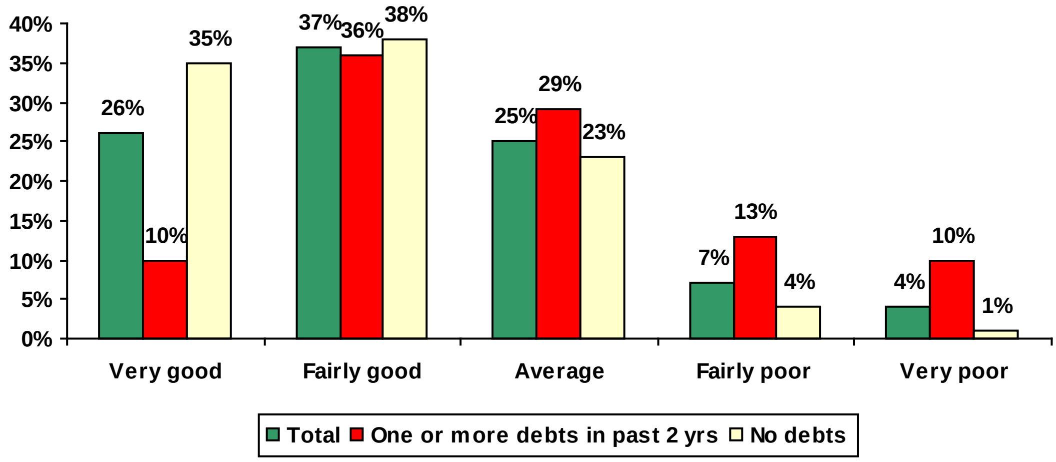
A total of 13% of respondents said they had used a price comparison website to check prices of utility suppliers, 3% had phoned around and 10% had someone check for them. However, three quarters of respondents (73%) had not compared prices to see whether they were getting the best deal for their gas and electricity. Asian respondents were less likely than others to have checked prices. Thus a minority of respondents have checked fuel prices so it is possible people are not getting the best deals. A quarter of those respondents who had not checked prices themselves said they would like to be able to check utility prices with the help of an advisor, corresponding to 21% of the sample.

4.9. Financial literacy and capability

Raising the level of financial capability of households and individuals is seen as an important part of the financial inclusion agenda. Information about financial products may enable households and individuals to choose appropriate products and it may ameliorate information asymmetries preventing households from applying for financial products. Moreover, it is believed that education in money management and financial planning will increase the propensity to save and generally decrease the risk of households falling into arrears and indebtedness.

Chart 4.12 displays how good the respondents think they are at budgeting and managing their money.

Chart 4.12: How good people feel they are at budgeting or managing their money



A quarter of respondents (26%) believe they are very good at managing their money or budgeting with 37% thinking they are fairly good. Over all a quarter of respondents (25%) think they are average whereas 7% think they are fairly poor and 4% very poor. Respondents who have been in arrears were far more likely to say that they were poor at managing their money. Respondents aged over 60 were very unlikely to say they were poor at managing money.

Table 4.20 shows how good respondents feel they are with managing money compared with how well they are actually managing at present.

Table 4.20: Perceived budgeting ability compared with current situation

	Total	Managing well	Getting by	Struggling	In difficulties
Very good	26%	68%	23%	12%	-
Fairly good	37%	21%	48%	28%	24%
Average	25%	6%	25%	35%	32%
Fairly poor	7%	2%	2%	17%	24%
Very poor	4%	2%	1%	8%	20%
Base: complete sample	301	47	163	65	25

Source: Resident survey conducted in Rochdale in July and August 2010

Generally those who say they are managing well at present feel they are good at budgeting and managing money. A total of 44% of those who are currently ‘struggling’ and 24% who are ‘in difficulties’ with their finances feel they are fairly good at managing money, suggesting that they believe it is a lack of money rather than a lack of skill which is causing their difficulties.

Respondents were then asked how well they understood financial services such as bank accounts, savings, getting credit or loans (Table 4.21).

Table 4.21: Perceived understanding of financial services by household type

	Base	Good	Poor
Total	301	71%	9%
Owned	98	76%	8%
Social housing	167	68%	9%
Rented private landlord	35	77%	9%
18 to 29	99	72%	5%
30-44	83	69%	12%
45-59	68	71%	13%
60+	51	76%	4%
Male	143	71%	8%
Female	158	72%	9%
White - British/Irish	194	71%	9%
Asian	91	73%	9%
Lone Parent	38	74%	11%
Couple with children	87	74%	5%
Single person living alone	26	58%	23%
Pensioner only	44	77%	2%
Disabled/long term ill person in household	101	65%	17%
Working household	136	76%	4%
Workless	165	68%	12%
None or less £100	210	66%	10%
£101-£1000	44	84%	5%
More than £1000	20	85%	5%
One or more debts in past 2 years	107	56%	18%
No debts	194	80%	4%

Source: Resident survey conducted in Rochdale in July and August 2010

Three in four respondents thought their understanding was good, with 25% saying it was very good, 47% fairly good and 18% average. A total of 5% thought it fairly poor and 4% very poor. People who had been in debt were more likely than others to say their understanding was poor.

Those respondents who thought their understanding of financial services was poor were asked to what extent, if any, it had caused them any difficulties with managing their money (Table 4.22).

Table 4.22: Extent to which poor understanding of financial services has caused them any difficulty with managing their money

	Total
Not asked, understanding good	74%
Yes - very difficult	2%
Yes - quite difficult	9%
Not much difficulty	8%
No difficulty	2%
No problems managing money	3%
Don't know	2%
Base: complete sample	301

Source: Resident survey conducted in Rochdale in July and August 2010

Overall, 9% of these respondents said it had made it very difficult and 35% fairly difficult. Thus, 12% of the complete sample said that a lack of understanding of financial services had made it difficult for them to manage their money.

4.10. Groups at risk of financial exclusion

In the preceding sections we have looked at the extent and nature of a range of issues closely linked to financial exclusion. The findings so far suggest that a growing proportion of financially excluded households own a bank account, but that many do not make use of it to access cheaper services. Moreover, the findings also indicate a very low propensity to save and that many consider themselves too poor to consider home contents insurance.

However, much of the research conducted in the UK (e.g. Collard et al., 2001, Fuller et al., 2003, OFT, 1999, Thrift and Leyshon, 1997) suggests that financial exclusion is concentrated within certain groups and geographical areas. Thus in this section we seek to identify key groups and geographical areas within Rochdale particularly affected by or at risk of financial exclusion. Table 4.23 displays the groups and the particular aspects of financial exclusion affecting them.

Table 4.23: Groups at risk of financial exclusion

	Lone parent households	Workless households	Social housing tenants	Private tenants	Asian households	Pensioner only household
Banking services	Least likely to own bank a/c; Most likely to have been refused; High % without overdraft, debit card & cheque guarantee card	Low bank a/c ownership; High % without overdraft, debit card & cheque guarantee card	Low bank a/c ownership; More likely to have been refused; High % without overdraft, debit card & cheque guarantee card	High bank a/c ownership; More likely to have been refused; High & with debit card; Less likely to have overdraft	High bank a/c ownership; Less likely to have debit card & overdraft	Less likely to own bank a/c; More likely to have cheque guarantee card; Less likely to have overdraft
Affordable credit	Highest use of high-cost, sub-prime credit; High % refused credit	Above-average use of high-cost, sub-prime credit	High use of high-cost, sub-prime credit; Above-average % refused credit	High use of high-cost sub-prime credit; Highest % refused credit	Low use of high-cost sub-prime credit; Low % refused credit	Lowest use of high cost sub-prime credit; Least likely to have been refused credit
Savings	Low propensity to save & few savings; Least likely to use interest-bearing savings products	Low propensity to save & few savings; Low use of interest-bearing savings products	Low propensity to save & few savings; Very low use of interest-bearing savings products	Low propensity to save & have few savings; Low use of interest-bearing savings products	More likely to save; More likely to use interest-bearing savings products	More likely to save; Slightly more likely to interest-bearing savings products
Insurance	Vast majority without home contents insurance	Majority without home contents insurance	Majority without home contents insurance	Majority without home contents insurance	Slightly more likely to have home contents insurance	Slightly more likely to have home contents insurance
Over-indebted-ness	High levels of worry about falling in arrears; Great likelihood of arrears now or in past 2 yrs	Average levels of worry about falling in arrears; Great likelihood of arrears now or in past 2 yrs	Below-average levels of worry about falling in arrears; Great likelihood of arrears now or in past 2 yrs	High levels of worry about falling in arrears; Average likelihood of arrears now or in past 2 yrs	High levels of worry about falling in arrears; Low likelihood of arrears now or in past 2 yrs	Lowest levels of worry about falling in arrears; Lowest likelihood of arrears now or in past 2 yrs
Fuel poverty	Average % experiencing difficulty in paying fuel bills; Highest % relying on pre-payment meter	High % report experiencing difficulty in paying fuel bills; High % use pre-payment meter	High % report experiencing difficulty in paying fuel bills; High % use pre-payment meter	High % report experiencing difficulty in paying fuel bills; Average % use pre-payment meter	High % report experiencing difficulty in paying fuel bills; Low % use pre-payment meter	High % report experiencing difficulty in paying fuel bills; Low % use pre-payment meter

Lone parent households

As the table highlights, lone parents were particularly vulnerable to being either totally excluded or living on the margins of mainstream financial services. Lone parent households were least likely to have a bank account – 26% did not have a bank account – and they were most likely to have been refused a bank account. Many were also not using their bank accounts and thus not capitalising on the discounts often given to people who pay their bills by direct debit. For example, seven out of ten lone parent households use prepayment methods to pay their fuel bills, rather than capitalising on cheaper rates through paying by direct debits.

There was a low propensity to save among lone parent households and only 34% reported having home contents insurance. Lone parents were, furthermore, more likely than most other groups to resort to high-cost sub-prime credit, they were often struggling with arrears and they also had the greatest likelihood of reporting difficulty with paying fuel bills.

The vulnerability to indebtedness and fuel poverty, and the tendency to resort to high-cost finance to make ends meet can be explained by numerous factors. Because they have children they may be at greater risk of unforeseen expenditure hikes. They may also find it more difficult to cut down on consumption, including spending on clothing and toys. Their vulnerability to rises in expenses is made worse by the fact that they often possess few skills and have low educational attainment, leaving them with few options in terms of increasing income.

Workless households

Workless households were too often finding themselves at the margins of the mainstream financial sector. Nearly one in four – or 24% – workless households did not have a bank account. The workless were unlikely to save with nearly 80% either not saving or having less than £100 in savings. Nearly seven in ten respondents did not have home contents insurance and a high proportion was in arrears when interviewed or in the past two years. Further, almost half of the respondents were having some or great difficulty in paying their fuel bills and more than half were paying their fuel bills using a prepayment meter.

Social housing tenants

Social housing tenants also appear to be particularly affected by financial exclusion. This is not a surprising finding. The social housing tenant group consists of a wide range of vulnerable and deprived households, including workless households, low-income working households and lone parents. As with lone parent and workless households, social tenants found themselves living at the margins of mainstream banking services. They were less likely than the overall sample to have a bank account and home content insurance, and more likely to have been refused a bank account. They were more likely to have been refused credit and use sub-prime credit. They were also often struggling to make ends meet, often struggling to pay their fuel bills and more likely to find themselves in arrears.

Private tenants

Private tenants were more mixed in terms of the extent of financial exclusion. They were more likely to own bank accounts, with only 11% not having a bank account, less likely to pay their fuel bills using prepayment meters and not more likely to be in arrears than the sample overall. Yet nearly eight out of ten private tenant households had either no savings whatsoever or less than £100. They were also more likely to have been refused credit and to resort to sub-prime borrowing. Finally most private tenants did not have home contents insurance. In other words this group were banked and also used banking and transaction services. The services to which they had no access tended to be those linked to credit or risk scoring.

BME groups

In the survey respondents with an Asian background tended to be less financially excluded than other groups. The rate of bank account ownership was relatively high with only 11% not having a bank account. Compared with the sample average, Asian respondents were likely to save, less likely to have been refused credit and less likely to borrow. They were also more likely to pay their fuel bills using direct debit. They were, though, more likely to report difficulties paying fuel bills.

However, this may mask actual levels of social exclusion among ethnic minority groups in Rochdale. Interviews with stakeholders suggest that ethnic minority groups are less likely to access services from the local council and other service providers due to language barriers and lack of knowledge about the services provided. It is also worth noting that there was a high proportion of homeowners in the Asian sample. Fifty-seven percent of the Asian respondents were homeowners compared with thirty-three percent for the overall sample.

Generally, research on financial exclusion finds that ethnic minorities tend to be at particular risk of financial exclusion. A study by Small Change Research Partnership (2006) on the extent and nature of financial exclusion in the South East of England found that a wide range of ethnicities including African, Bangladeshi, Pakistani and Indian were less likely to own a savings account. The study further found households of Bangladeshi and Pakistani origin were also less likely to have access to affordable personal credit. This seems to be corroborated by Kempson et al (2000) who find households and individuals of Black African-Caribbean, Pakistani and Bangladeshi to be at particular risk of financial exclusion.

In terms of barriers to the take-up of alternative financial products among ethnic minority groups in Rochdale, the main barriers appear to be a lack of knowledge of the services provided, language barriers (especially for first generation migrants) and a lower propensity to take out loans. For some there is also likely to be an issue around alternative financial products not being Sharia compliant. However, according to one BME group, this is not likely to be the case for the majority of the local Muslim population.

5. Financial inclusion interventions in Rochdale

5.1. Introduction

In this chapter we turn to how Rochdale Metropolitan Borough Council (RMBC) and its stakeholders can combat financial exclusion in the borough. The remainder of this chapter is organised into six sections. The second section looks at the different policy levers that RMBC may use, while the third examines the sources of funding that the Council can draw on. The fourth looks at best practice in comparable cities, the fifth looks at anti-poverty work being progressed within and outside the borough and the sixth details the financial inclusion activities across the borough. In the final section, we discuss the gaps in provision and highlight some of the key interventions. The interventions are detailed in the Financial Inclusion Strategy and Action Plan 2010-2013.

5.2. Policy levers

Beyond delivering and funding financial inclusion interventions, which we discuss in the next section, RMBC has a number of policy levers it can use to promote financial inclusion:

- *Planning policy:* Planning policy may potentially be a lever to prevent the concentration or establishment of sub-prime and predatory lenders in deprived communities. There is currently no planning policy around preventing concentration or establishment of sub-prime lenders as it is difficult in planning legislation to withhold consent to organisations. To have such limitations on the concentrations of sub-prime lenders, there needs to be a case for it backed up by clear evidence. This evidence may relate to documented health effects, negative effects on shopping street (reducing footfall etc) and house prices. There is, for example, currently a policy around hot food outlets in the core strategy. In this policy the planning department can withhold planning permission to such shops (especially in case of locating close to schools etc) on the basis that it devalues surrounding properties and is bad for health.
- *Corporate debt policy:* As with other local authorities, RMBC is a major creditor, maybe especially for low-income households. RMBC is a creditor when it comes to council tax collection, over-payment of benefits and parking fines. If not appropriately designed debt collection procedures can inadvertently exasperate debt issues faced by local residents. Rochdale Advice Services have developed a debt protocol agreed with parts of RMBC which acknowledge the role of Rochdale Advice Services. However, there is no corporate debt policy ensuring that all debts are dealt with under one heading.
- *Corporate procurement policy:* Procurement policies constitute a potentially powerful lever in enabling financially excluded to access services. Many social housing landlords use their procurement policies to promote financial inclusion, by for example getting cheap rates on insurance for their tenants, securing investments in community projects and easing ID requirements for tenants wanting to open up bank accounts (e.g. by allowing tenants to use tenancy letter as ID). One of the goals of the procurement strategy of RMBC is to “improve economic, environmental and social opportunities for our Borough by stimulating markets and achieving community benefits”. Further, the strategy states that procurement should seek to “improve economic, environmental and social opportunities for our Borough by stimulating markets and achieving community benefits.” However, to date, there is no specific focus on promoting financial inclusion as part of the procurement of services from mainstream finance institutions.

5.3. Funding

There are three main ways of funding the interventions proposed in the strategy:

- *Capital funding:* RMBC and other stakeholders may provide funding that will be used to purchase or obtain long-term fixed assets for a particular project or organisation.
- *Revenue funding:* Funding may be provided to cover revenue costs, such as running costs, salaries, consumables, telephone and similar costs.
- *In-kind support:* Both private and public sector organisations can support service providers by offering discounts on expenses and debt. This could include premises at subsidised rates or free of charge, secondment of staff, pro-bono work and donation of equipment.

Up until now a considerable source of funding for financial inclusion programmes has come from central government. However, most of the funding programmes have been cancelled or will be discontinue when they expire at the end of this financial year. In light of this, funding may come from the following sources:

- *Rochdale MBC:* The local council is an important funder and supporter of financial inclusion interventions. Clearly in the current environment of financial austerity and cuts in local authority budgets, funding from this source may be limited. Nevertheless, RMBC is still an important source of support, maybe especially in the form of in-kind support.
- *Social housing landlords:* Social housing landlords already fund and support a broad range of financial inclusion activities across the borough. Most of these interventions are aimed at their own tenants, but by pooling resources with other organisations these services may be expanded.
- *Charitable funding:* Charitable foundations are also important funders and supporters of financial inclusion interventions. However, charitable funding tends to be ring-fenced and few support core operating costs to run an existing service. They also tend to focus on a limited geographic area and often on projects that are perceived to be innovative and high-impact.
- *Private sector funding:* It is also possible to draw on private sector funding. This may be done through effective use of procurement. Social housing landlords already use their purchasing power to gain good deals on home content insurance for their tenants and to gain funding for community projects. Private sector creditors may be enticed to fund debt advice provision given that they benefit from this being provided (i.e. reduced court costs, assessment of payment capacity of debtors, putting in place realistic payment plans). They may also be willing to provide in-kind support, in terms of pro-bono work and premises.
- *European funding:* Funding from the European Union is another possible source of funding for financial inclusion activities. However, it is problematic for individual local authorities to apply for such funds given that they have tended to go through the RDAs and now the local strategic partnerships. Moreover funding tends to require match funding.
- *Client funding:* The means with which to fund services can also come from the service users themselves. This may come from introducing or increasing fees and interest rates. For example, one might add a fee to payment plans negotiated by debt advice agencies. The problem of seeking funding in this way is that they may have limited ability to pay and that this ability is being further eroded by the cuts being made to the benefit system.

5.4. Best practice in financial inclusion

Part of the brief was to highlight examples of best practice in financial inclusion interventions from cities that were comparable. To do this we looked at cities that were comparable in terms of population, ethnicity, deprivation, and industrial history and mix. It is important to note that the cities chosen were on balance comparable with Rochdale rather than comparable in every single aspect.

We picked examples of good practice from the following cities:

- *Salford:* Similarly sized city in Greater Manchester; a declining industrial town with considerable public sector employment and high levels of deprivation.
- *Blackburn with Darwen:* Large industrial town in decline since the mid 20th century; large Asian population; high levels of deprivation.
- *Preston:* Smaller in size relative to Rochdale; large Asian population; high levels of deprivation
- *Oldham:* Similarly sized neighbouring declining industrial town with still considerable manufacturing base; similar ethnic make-up.

Steady Readies (Salford)

Salford City Council Skills for Life Team launched this project in 2008 with funding from the Department of Work and Pensions (DWP). This project has been delivering free financial inclusion awareness training for staff and volunteers, especially frontline staff. The training is tailored according to individual groups and educates relevant staff in financial inclusion and capability. The sessions also inform the participants about the different financial inclusion service providers in the city to enable staff to signpost their clients to appropriate agencies and organisations.

Another component of this project is offering bespoke support directly to individuals and households at risk of financial exclusion on a one-to-one basis or to small groups in a range of issues related to financial exclusion, for example aiding someone in setting up a bank account or basic budgeting. These individuals were referred to the project by agencies and organisations.

Resourced with less than one full-time resource, the service has trained more than 600 staff and volunteers. It has enabled frontline staff to gain a much better understanding of the type of problems their clients are facing, such as high financing costs, low levels of savings, difficulties in accessing credit and debt. It has also led to better and more appropriate referrals. It has been particularly effective in reaching vulnerable groups.

East Lancs Moneyline (Blackburn)

East Lancs Moneyline (ELM) is one of the most successful personal lending CDFIs in the UK. It has more than a dozen branches across England and Wales and has lent to more than 10,000 low income households. ELM also operates with savings accounts and helps applicants open up bank accounts. Blackburn with Darwen Council has played an important part in helping ELM grow through placing a member of the Council's regeneration bidding team on the board. This has meant that ELM has been included in various bids.

Financial inclusion steering group (Salford)

In Salford there has been a financial inclusion steering group in place since 2005. The group has a wide membership, including social housing landlords, local authority agencies, community groups, the trading standards team, affordable credit providers and debt advice agencies. A nucleolus of work has been conducted under the auspices of this steering group, including raising funds for financial inclusion projects across the different stakeholder groups (including the Ready Steadies project), mapping of financial inclusion services, sharing information and best practice, and strategy development and responding to council policy. Due to the growing size of the group, it has now formed a Salford Financial Inclusion

Strategic group, with a smaller membership, which is responsible for drafting responses to local authority and central government policy and strategy development.

Home improvement loans (Preston)

Lancashire Community Finance, formerly known as Preston Moneyline, an independent community-based loans organisation, began operating from city centre premises in May 2005, as the first Moneyline to offer housing improvement loans. These loans, which are directed at vulnerable households who do not have access to mainstream finance, continue to play a major part in helping the Preston Strategic Partnership to ensure that private housing is brought up to the Decent Homes Standard. They have recently developed a new interest only loan.

Loans are issued based on the repayment rather than equity release model. The loans are targeted at owner-occupants who cannot access finance through the mainstream sector and who is able to repay the loan. Lancashire Community Finance makes in the region of 30 loans a year at a fixed interest rate of 5%. The provider receives a revenue support and up until recently also received capital funding. It now has sufficient capital to provide loans without additional capital.

There are distinct advantages of linking financial products into home improvement in this way for the provider, the local authority and the end-users. It is likely to enhance the sustainability of the lender as home improvement loans have low default rates and tends to involve larger sums than personal lending. It lowers the cost of raising the standard of the housing stock. For the users it is likely to lower their fuel costs.

Debt collection escalation procedure (Oldham)

First Choice Homes Oldham (FCHO) has implemented a five step process for tenants in arrears. In the first step it refers them on to the Money Made Clear guide based in its offices. In the second step a financial statement regarding the income and expenditure is set. Then in the third step the priority and non-priority debts are gone through with the purpose of mapping the problem further. In the fourth step, FCHO will examine if the tenant is receiving all the benefits he or she is entitled to. In the final step, a payment plan will be proposed. FCHO's financial inclusion team (formerly the rent team) will go through these steps with referrals made to specialist agencies where necessary. Only when these five steps are done and the case has not been resolved will the landlord take tenants to court. In addition, FCHO is currently conducting a six month trial of pre-court hearings at the Notice Seeking of Possession-stage in cases where the landlord has been unsuccessful in establishing contact with the tenant.

5.5. Anti-poverty strategies

Financial exclusion is closely linked to poverty. Research suggests that households living in poverty are less likely to save, own a bank account and have home contents insurance. Further, poor households and workless households are more likely to manage their household budgets and pay their fuel bills in cash. Similarly, the access to mainstream borrowing for poor households tends to be restricted as credit scoring favours people in full-time steady employment and with a credit history.

This suggests that combating financial exclusion is not likely to be effective if done in isolation of wider social inclusion interventions and labour market interventions. For example financial inclusion interventions are important to avoid people slipping back into the cash economy as they are leaving the labour market.

Thus in this section we conduct a review of anti-poverty work being progressed within and beyond the Borough of Rochdale. To our knowledge there are four local authorities in England that have explicit anti-poverty strategies in place (Table 5.1).

Table 5.1: Overview of Local Authority Anti-Poverty Strategies in England

	Definition of poverty	Proposed interventions
Oldham Anti-Poverty Strategy 2010	Beyond income, including financial exclusion, education & skills	Existing interventions include Housing Bond Scheme (guaranteeing up to £500 of rental deposit) and advice court desk service Proposed actions addressing financial inclusion (e.g. extending & developing financial support & advice schemes, financial mentoring); improving education, employment & skills (e.g. extending passport to employment scheme, working neighbourhood pilot); improving access to services & amenities (e.g. information bank for frontline staff, establish network to assist hard-to-reach groups); co-ordinating services locally (e.g. co-locating services, sharing best practice)
Cumbria Anti-Poverty Strategy 2009	Poverty largely defined as income poverty, though recognition of wide-ranging implications of poverty on health, social capital, & education	6 outcomes: 1) identify & understand issues facing low-income households (e.g. monitoring, regular consultation); 2) improve & promote advice, info & support to low-income households (e.g. discounted & free services, affordable council tax & flexible council tax collection; 3) develop & deliver affordable & accessible services to low-income households (e.g. benefits take-up, more effective referral to advice, campaigning against loan sharks & rogue traders); 4) provide appropriate & timely resources to most vulnerable (e.g. better targeting, service improvements in areas of greatest needs); 5) support groups to escape & stay out of poverty (e.g. training & employment support to low-income households, coordinate support in relation to major job losses); & 6) promote coordinated approach via partnership working (e.g. influence utility companies to deliver affordable warmth; argue for greater proportion EU, national & regional funding to area)
Sandwell Anti Poverty Strategy 2010-2013	Defines poverty as relative and absolute income poverty However, strategy sees causes of & solutions to income poverty as broad & multifaceted (e.g. health, social networks etc)	The strategy focuses on income maximisation (increased benefit uptake, money advice), from education & training into work (info, advice & guidance; volunteering, work placements & apprenticeships programme), service development (improve access to local services, ensure buy inputs from local businesses and make use of local labour such as “Routeways into the NHS programme”, promote local credit unions), social networks (promoting volunteering), community engagement (creating & supporting community-based organisations, local partnerships), equalities (relating to levelling out of inequality between neighbourhoods
Hinckley & Bosworth Anti-Poverty Strategy 2009-2012	Identify 7 aspects of poverty: income, employment, health, education, barriers to housing & services, living environment, & crime	Identifies a series of existing initiatives: homelessness frontline prevention fund (payments made to households facing homelessness to remain in or find new accommodation); pest control discount to low income groups (30% discount for households on certain means-tested benefits); benefit take-up campaign; financial assistance for repair for homeowners (major works & minor works assistance; warm front top up-assistance; disabled facilities grant); decent homes insulation scheme (council, Energy Saving Partnership Ltd & Energy Services North East offer all private householder in declared priority areas free loft & cavity wall insulation). Proposed new initiatives: target benefit uptake campaigns at poor groups & areas (target most deprived SOAs, working age leaflet on claiming housing and council tax benefit); liaise with employers making redundancies to offer advice & support on benefits & debt management; improve referral mechanisms for advice & internet resources; organise Christmas lights switch-on to increase footfall & business income

On the whole the anti-poverty strategies define poverty as relative and/or absolute income poverty (i.e. households living below a certain income or that have low incomes relative to the incomes of the rest of the population). However, they tend to see the causes, consequences and solutions as being multifaceted, relating to health, housing living environment and social capital.

The solutions detailed in the strategies tend to fall into two broad categories:

- *Increasing disposable income:* Many proposed actions are concerned with raising the disposable income of households by increasing the take-up of benefits, reducing fuel costs, reducing reliance on high cost credit and reducing debt payments and indebtedness. This is mainly done through information campaigns, provision of advice and grants. In response to the current economic crisis, some councils are targeting benefits advice at employers making redundancies. Such interventions may prove less effective in the future given the considerable cuts in benefits proposed by the current government.
- *Labour market interventions:* Other proposed actions are targeted at getting people into employment or into better paid employment through training and employment support, procurement policies favouring local businesses and work placement and apprenticeship programmes.

In the case of Rochdale the poverty actions are encapsulated in the Local Area Agreement (LAA), the Joint Employment and Skills Action Plan and the Children and Young People's Action Plan and the Economic Development Strategy. The LAA Aims to tackle deprivation within communities and vulnerable groups, and has key priorities relevant to poverty, namely increasing jobs and prosperity and making sure every child matters.

The Joint Employment and Skills Action Plan seeks to engage with:

- ➢ Workless residents, especially those who live in the most deprived neighbourhoods and assist them in returning to work thereby reducing poverty through employment targets within the RSL plans and enhanced training opportunities.
- ➢ Residents in employment and up-skill them to enable them to seek progression in employment through training and tailored support
- ➢ Families, addressing workless and low income parents and aiming to reduce child poverty and financial exclusion in this way through training and the Home Access Project.

The Children and Young People's Action Plan aims to address the needs of the most deprived children living in poverty within the borough through early intervention and prevention. Salient interventions include targeted Youth Support (multi-agency team meeting regularly in each secondary school formulating, implementing and evaluating interventions for vulnerable pupils) and seven family workers across 16 secondary schools to strengthen families and safeguarding children (one-to-one working with families at home and in community on issues regarding behaviour management, budgeting, support with housing).

The Economic Development Strategy concentrates on increasing productivity, raising skill levels and reducing worklessness, creating infrastructure and attracting investment and also improving quality of life and the attractiveness of the borough. The aim of the strategy is to help the borough and subsequently affect the poverty and deprivation among residents through the above separate strands of the economic policy. This is also supported by a separate skills and employment strategy.

5.6. Existing financial inclusion interventions in Rochdale

Having examined the potential policy levers, the funding, best practice in financial inclusion promotion and the link to broader poverty strategies, we now turn to the current financial inclusion interventions in the borough.

5.6.1. Banking and transaction services

Numerous organisations and projects will help people setting up bank accounts, though there are, to the best of our knowledge, no projects working specifically and explicitly on this. For example, the Energy Efficiency Officer of Rochdale Boroughwide Housing will help people set up bank accounts and neighbourhood staff at Great Places will also help tenants open up accounts.

5.6.2. Affordable credit provision

There is currently no comprehensive affordable credit provider in Rochdale. Metro MoneyWise Credit Union offers savings and loan products to employees of Rochdale Council, Pennine Acute Hospitals Trust, Heywood, Middleton and Rochdale Primary Care Trust, Rochdale Boroughwide Housing and Hopwood Hall College. Metro MoneyWise offers personal loans at an interest rate of 12.7% APR and savings whereby members are paid annual dividends. The issue of affordable credit provision in Rochdale is considered in a separate report.

5.6.3. Affordable insurance schemes

There are a range of affordable Home Contents Insurance (HCI) schemes for social housing tenants and leaseholders. Social housing landlords are uniquely placed to provide affordable insurance. For the most part they provide insurance products arms length rather than in-house. The HCI policy to be offered to the tenants of the social housing landlord in question is generally determined through a competitive tendering process. In this process insurance companies compete to provide a package of insurance policies (e.g. professional indemnity insurance) for the landlord, including tenant HCI policies. This bundled approach gives landlords considerable bargaining power resulting in competitive offers.

In Rochdale, the following social housing landlords offer the following insurance policies:

- *Rochdale Boroughwide Housing:* RBH operates with an insurance scheme with one price range regardless of postcode. HCI is offered from £2.30 a week (for £9,500) and up to £6.04 (for £25,000). For people over 60 and in receipt of state benefit weekly premiums start at £1.01 for £8,000 up to £3.15 for £25,000 cover
- *Northern Counties Housing Association:* Offers insurance with no excess and accidental damage from £1.79 to £7.94 for a cover of £9,000 and £40,000. For tenants over 60 weekly premiums start at £1.05 for £6,000 cover to £7.03 for £40,000.
- *Riverside Group (including Bowlee Park):* Offers insurance to its residents in association with Royal & Sun Alliance.
- *Great Places:* Offers insurance without excess starting at a weekly premium of less than £2.

In addition, Contour Homes and Regenda Homes promote MyHome Contents Insurance which was launched by the National Housing Federation and the insurance broker Jardine Lloyd Thompson in 2006.

5.6.4. Savings schemes

As mentioned, Metro MoneyWise Credit Union offers savings products to people within its common bond. However, the fact that the common bond of the credit union is restricted to local authority employees does severely limit the ability of low-income, financially excluded households to access these saving services.

5.6.5. Debt and generic money advice

There are a range of providers of both specialist and light-touch advice on debt and money-related matters. Some of the key providers include:

- *Rochdale CAB:* Offers advice and casework on debt, money, welfare benefits, housing, employment, consumer and family law from its offices in Rochdale and Middleton and surgeries in Heywood and Pennine. Also operates with an outreach sessions aimed specifically at migrant workers in Rochdale, Middleton and Heywood, and for parents of children under the age of five in Middleton and Pennine. The bureau is funded by LSC, FIF2, the Mortgage Rescue Scheme, Sure Start, the Big Lottery Fund and RMBC
- *Rochdale Advice:* Offers advice and casework on housing rights, debt and welfare rights. It was started in 1992 when the welfare rights and debt were merged. Has a staff advice resource of 10.5 FTE, 5 of which focus on debt and housing and 5.5 on welfare rights. Rochdale Advice works with vulnerable and deprived households. A recent profiling exercise found that the majority of the clients to be lone parent households, on means-tested benefits, 80% with priority debt and many with long-term health problems. Operates with a county court rota scheme for representation and outreach specifically targeting Asian households and people with mental health problems.
- *Rochdale Law Centre:* Provides advice on housing, employment, discrimination, immigration and community care (including advocacy for the elderly). The centre offers a telephone advice service for employment, housing and immigration advice only. It is also part of the Rochdale Legal Advice Partnership which offers clients advice through a casework service in debt, housing, employment, consumer, benefits, immigration and legal matters.

Another important advice service in Rochdale is the Mortgage Rescue Scheme – a £200m package of measures designed to prevent some of the most vulnerable families losing their homes. This occurs either through RSL provision of equity loan or government mortgage to rent. In Rochdale the scheme is resourced with around two FTE resources dedicated to this service, dealing with the management, administration and advice. In the last year the scheme has saved in excess of 36 people from repossession. In addition, in the majority of the cases the service is able to find alternative means of avoiding repossession.

In addition to these more specialised agencies, there are also a wide range of organisations providing advice, guidance and self-help material on money-related issues. Several other organisations offer holistic advice and guidance which may touch on money-related issues. This includes floating support schemes to support sustainable tenancies, such as Rochdale Petrus Community (provides housing and related advice to homeless people) and Stepping Stone (provides support for people at risk of homelessness). It will also include advice around worklessness, such as that provided by Sure Start and Connnexions.

However, a more interesting question than what provision exists currently is what provision will exist over the next few years. Debt advice will potentially be greatly affected by the austerity measures being devised and implemented nationally and locally. The Financial Inclusion Fund face-to-face debt advice programme, which funds 500 debt advisor across the country, is due to expire at the end of the current financial year. The Legal Services Commission funding may be changed to exclude debt. Although this funding has already been awarded it can be cancelled with six months notice. The Service Level Agreement (SLA) between RMBC and CAB will expire at the end of this year and the nature and magnitude of any continued funding is uncertain. In addition, there may also cuts and changes to the way in which debt and welfare rights advice is delivered by the council itself. The sum of these changes may have a potentially devastating effect on debt advice provision across the borough, especially for low-income, vulnerable groups.

5.6.6. Financial education

Financial education focuses on personal finance and is aimed at enhancing people's ability to make ends meet, keep track of their spending and outgoing, planning ahead, choosing products and staying informed (Atkinson, 2007). In this section, we look at the financial education provided by organisations in Rochdale, focusing in particular on mainstream training providers. In terms of mainstream training providers, in the form of colleges and further education institutions, the main providers are:

- *Hopwood Hall College:* Offers skills for life courses in numeracy, which run for 24 weeks (2.5 hours per week). The courses are free and are run at various community venues in the borough. The college offers certificate in adult numeracy entry level, level 1 and level 2. It also runs an Essential Skills course for people who want to increase literacy or numeracy. The course operates with individual learning plans tailored to improve the weak points of students and is also available via Orchard Training Solutions.
- *Hollingworth Business and Enterprise College:* Offers a 10-week course at the E-Learning centre in Adult Literacy and Numeracy for two hours a week. The course costs £20 in total.
- *Adult Community Training Centre:* Offers adult numeracy courses that are free for an unspecified limited time.
- *Workers Educational Association:* Offers various certificates in numeracy through local schools from around £30 to £120.

There is, to our knowledge, no courses focusing explicitly on financial capability and awareness are being offered by mainstream training providers. Most of the courses are on literacy and numeracy. Organisations such as social housing landlords and community groups offer various courses and training on financial education for their clients. The various financial inclusion services provided by social housing landlords are discussed in the next section.

5.6.7. Social housing landlords and financial inclusion

Social housing landlords are a key stakeholder group in terms of financial inclusion. They have a strong business case to intervene, given that many of their tenants are financially excluded, and they often have resources, know-how and points of contact with this group. In Rochdale, social housing landlords deliver and fund a range of financial inclusion activities:

- *Banking and transaction services:* Great Places has an agreement with the Royal Bank of Scotland (RBS) that helps tenants to open a bank account by easing ID requirements. If the tenant does not have a passport or driving license, he or she can provide a copy of tenancy agreement and a benefits letter. RBH has an energy efficiency officer helping tenants in arrears reduce their utility bills. This is in part done by helping tenants opening bank accounts and setting up direct debits.
- *Affordable credit:* None of the social housing landlords has, as far as we know, a formalised partnership with a third sector lender in Rochdale. RBH has in the past cooperated with Moneyline Greater Manchester and will make some referrals.
- *Savings:* Given the lack of a credit union covering all residents in the borough, activities in this field are limited to opening bank accounts and trying to convince people to save.
- *Debt and money advice:* Great Places' neighbourhood staff members offer advice on welfare benefits and income maximisation. RBH has a debt and welfare adviser offering advice and casework to tenants. Regenda Homes has an arrangement with Money Made Clear to give advice and guidance to individuals on demand and signposts to Rochdale CAB. The landlord also offers assistance with completing forms, housing benefit ID verification and information on grants and benefits. St Vincent's currently offer a Money Management Advice service and a Positive Futures advice service. All tenants have the opportunity to access these services either by referral through the lettings team or Neighbourhood Officer or they can also self refer.
- *Financial capability:* RBH has recently launched a pre-tenancy training focusing on budgeting, independent living and other aspects of the tenancy. The landlord also runs a series of u-switch workshops for tenants helping them change to a cheaper supplier. Great Places runs a number of 'money fun' workshops in different areas.

5.7. Gaps in interventions and partnership working

In this chapter we have examined the existing financial inclusion interventions and the partnership working across the borough. What are the gaps in interventions and partnership working?

There are many examples of good partnership working across Rochdale. Rochdale has a financial inclusion forum in which stakeholders can share best practice and information through their participation in the financial inclusion forum. RBH and Rochdale Advice liaise closely concerning debt collection. RMBC works closely with community groups and BME organisations, such as KYP, to reach out to ethnic minority groups. The three main advice agencies cooperate in numerous ways, including in service delivery, fundraising and joint development of material. There is also a great deal of informal cooperation and information sharing across stakeholder organisations, and there are numerous referral based partnerships.

That said there may be areas in which partnership working may be improved. There may be scope for pooling and sharing of resources to expand or underpin service provision. This may for example, the sharing of frontline staff or back-office operations related to the delivery of services, such as advice provision and financial education, or to fundraising and bidding activities.

There are also many strong financial inclusion interventions and services being offered across the borough by various organisations and agencies. There is a host of holistic and specialist support and advice services, though it is likely that the demand outstrips the supply as tends to be the case. Social housing landlords offer a range of affordable insurance products as well as advice and support on welfare benefits, and financial education.

There are two great current and future gaps in financial inclusion provision. First, while there is currently a relatively extensive provision of specialist debt and welfare advice and casework, this provision is likely to be severely curtailed in the coming year as funding is cut for key programmes. Second, as already pointed out in the brief, there is currently no provider of affordable credit and savings products for financially excluded households that are not employed by the council.

6. Conclusions and recommendations

6.1. Introduction

This report presented the findings and recommendations of research conducted on the extent and nature of financial exclusion in Rochdale. The study was conducted at the request of Rochdale Metropolitan Borough Council.

6.2. Study context and methodology

The UK has one of the most developed banking sectors in the developed world. Today more than 95% of UK households have some kind of bank account, whilst more than 90% have a current account. Yet a sizable group of as many as 1.5 million UK low-income households are either totally excluded from accessing or live on the margins of mainstream financial institutions. This phenomenon is called financial exclusion and disproportionably affects vulnerable groups, such as lone parents, the elderly, ethnic minorities and disabled people.

Unable to access the services of the mainstream banking sector, financially excluded households may often have to resort to doorstep lenders. The high interest rates and often predatory lending practices of these types of lenders may leave the households at risk of over-indebtedness and further social exclusion. Also, the higher costs associated with managing a household budget on a cash-basis rather than through a bank account potentially reduce the disposable income of these households.

To analyse the extent and nature of this problem in Salford, we relied on a wide range of research tools:

- *Resident survey:* A survey was conducted with 301 households in some of the most deprived postcodes in Rochdale. The survey contained questions on the access and use of financial services, and on the socio-demographic characteristics of the households.
- *Stakeholder workshops:* Two workshops were held with key stakeholders
- *Stakeholder interviews:* Semi-structured face-to-face interviews were conducted with representatives from key stakeholder organisations

6.3. Financial exclusion in Rochdale

In terms of access to banking and transaction services in Rochdale, 17% of residents still do not have access to a basic bank account with lone parent and workless households being the least likely to hold a bank account. Only around 4% have experienced outright refusal suggesting non-ownership of accounts may be down to self-exclusion. Around 14% of residents in Rochdale sometimes or always used charging cash machines suggesting a lack of non fee charging facilities. Households in Heywood and Pennines are particularly likely to use charging cash machines. However, only 4% of residents had experienced an outright refusal in opening a bank account suggesting a small level of self-exclusion.

Within Rochdale borough 60% of the respondents had no savings, compared with 28% nationally. Only 16% of the respondents saved regularly. Lone parents, people in rented accommodation, workless and disabled households were less likely to save. This is reflected nationally with only 40-41% of households from lower income groups having savings. Asian and pensioner households were more likely to save.

Around 12% of the respondents reported having been excluded in the past two years. Seventeen percent of people interviewed admitted to having resorted to sub-prime borrowing but the actual figure is likely to be higher than this. Women, lone parent households and tenants were more likely to take out a loan and to borrow from sub-prime lenders. Asian households, pensioners and owner-occupiers were least likely to borrow.

Only around half of the respondents had Home Contents Insurance (HCI). Owner-occupants were more than twice as likely to have HCI relative to tenants. While 82% of owner-occupants were insured, only 34% of tenants were. The main reason for not having contents insurance was the cost, with 76% stating it was too expensive.

Over-indebtedness is prevalent across the borough. From 2003 to 2009 landlord possession claims and orders in Rochdale fell by 25% and 20% respectively. In the same period, mortgage possession claims and orders rose by 60% and 132% respectively. The rise in mortgage claims is largely due to higher financing costs, falling affordability and rising unemployment. The fall in landlord repossessions may be explained by the more pro-active approach taken by landlords in avoiding evictions.

In terms of the survey results, 36% of the respondents had fallen behind on one or more bills in the last two years and 27% were currently behind on their payments. The most common reasons for being in arrears are insufficient income, ill health and unemployment. Fifteen percent of the sample interviewed expressed that they believed that problems with money management and debt have caused them difficulties in finding or keeping a job.

Turning to fuel poverty, 38% of the respondents had experienced difficulties in paying fuel bills. Asian households, workless households and households with prepayment meters were most likely to report difficulties with paying fuel bills. Only 34% pay by direct debit, often the cheapest method of payment whilst 47% of the respondents paid using prepayment meters, usually the most expensive method of payment. This is concerning as increases in fuel prices have tended to be much steeper for prepayment meters.

Enabling households to choose the right financial products and manage their money better is a very important part of the financial inclusion agenda. Around 26% of the respondents believed they were very good at managing their money and budgeting with 37% thinking they were fairly good. Three in four respondents thought their understanding of financial services was good with 25% saying it was very good, 47% stating it was fairly good and 18% saying it was average. However, 5% thought their knowledge was fairly poor and 4% stated it was very poor. s

6.4. Groups at risk of financial exclusion and over-indebtedness

We identified and examined six groups at risk of financial exclusion:

- *Lone parent households:* Least likely to be banked, to use direct debits, to save, to be insured and most likely to be in debt and to resort to sub-prime borrowing, this group was among the most excluded in the survey.
- *Workless households:* This group was also among the most excluded groups. The households in this group had limited access to banking and transaction services, were unlikely to save or have contents insurance, were likely to be in arrears and resorted to sub-prime borrowing to a greater extent than the sample overall.

- *Social housing tenants:* This group experienced high levels of exclusion. They were more likely to be in arrears and struggle with their fuel bills, and less likely to be banked and save.
- *Private tenants:* This group was more mixed in terms of extent of exclusion. They were more likely to be banked, but borrowed extensively from the sub-prime sector, were unlikely to save, were likely to struggle with fuel bills and unlikely to take out insurance.
- *Asian households*: The Asian households in the survey tended to be less financially excluded than other groups. With the exception of relatively high levels of fuel poverty, the respondents in this group were to a greater extent linked up to the mainstream financial sector, were more likely to save and were less likely to borrow, especially from the sub-prime sector. However, this may mask actual levels of social exclusion among ethnic minority groups in Rochdale, as interviews with stakeholders suggested that ethnic minority groups were less likely to access local services.
- *Pensioner only households:* The respondents in this group were mixed in terms of financial exclusion. While they were likely to be unbanked and to be struggling with their fuel bills, few used pre-payment meters and few resorted to sub-prime credit. They were also more likely to save than the rest of the sample.

6.5. Financial inclusion interventions – current practice and gaps in interventions

There are many examples of good partnership working across Rochdale. This includes sharing of information and best practice, liaising and signposting, and joint service delivery, fundraising and development of learning material. That said there may be areas in which partnership working may be improved. There may be scope for pooling and sharing of resources to expand or underpin service provision. This may for example, the sharing of frontline staff or back-office operations related to the delivery of services, such as advice provision and financial education, or to fundraising and bidding activities.

There are also many strong financial inclusion interventions and services being offered across the borough by various organisations and agencies. There is a host of holistic and specialist support and advice services, though it is likely that the demand outstrips the supply as tends to be the case. Social housing landlords offer a range of affordable insurance products as well as advice and support on welfare benefits, and financial education.

There are two great current and future gaps in financial inclusion provision:

- *Money and debt advice provision:* While there is currently a relatively extensive provision of specialist debt and welfare advice and casework, this provision is likely to be severely curtailed in the coming year as funding is cut for key programmes.
- *Affordable credit:* As already pointed out in the brief, there is currently no provider of affordable credit and savings products for financially excluded households that are not employed by the council.

6.6. Recommendations for tackling financial exclusion

We would make the following recommendations regarding financial inclusion activities in Rochdale:

<u>Recommendations: Funding and coordination</u>

Recommendation 1: Create a financial inclusion charity

We believe that much of the work of financial inclusion can be defined as charitable and there needs to be a vehicle to coordinate applications for cross-cutting action. Therefore, we propose creating a charitable body. This would exist to assist and encourage people who cannot access mainstream financial institutions to understand and take control of their finances, to enable them to make informed financial choices and have the opportunity to access mainstream providers.

There are number of factors to consider prior to agreeing organisational structure:

1. The priority of avoiding overlapping services or services that compete with existing providers; rather developing the services offered by existing entities should be pursued.
2. A charitable entity would seek a coordinating strategic role and would not seek to offer any direct services, unless specifically requested by all the partners
3. The charity may serve as a 'wholesaler/clearing house' for strategic financial inclusion funding and applications. Seeking in all situations to 'add value' to funding applications.
4. It requires a high profile board that have the capacity to ensure financial inclusion is placed at the top of the political and economic agenda.

The primary functions should be:

1. Fundraising for basic money management
2. Develop referral networks from advisors to lenders and encourage and facilitate integrated service delivery through one-stop-shops.
3. Endorse a general education awareness campaign supported by bespoke and integrated training in schools and colleges.
4. Ensure services are available for all of Rochdale's citizens.
5. Measure and assess the impact of the strategies – are they increasing the disposable income of citizens, are they helping to build the economy, and is it reducing the health costs? The charity must develop a series of indicators to ensure its strategy is having a positive impact on Rochdale.

The charity would need to be resourced with around one FTE staff resource to coordinate fund-raising and bidding

<u>Strategic actions</u>

a) To create single place for financial inclusion stakeholders to agree a strategic approach to promoting financial inclusion
b) Serve as a vehicle for raising and distributing funds among projects

<u>Operational actions</u>

<u>Short-term actions</u>

a) Broaden the scope of the current financial inclusion steering group to decide over allocation of resources and commission research

Medium-term actions

a) Set up new charity (or take over dormant charity with appropriate aims)
b) Apply to the Charity commission under relief of poverty and education in order to cover both combating financial exclusion and promoting financial literacy

Long-term actions

a) Make use of charity as fundraising body

Measurable outcomes:

a) Creation of charity
b) Increased non-governmental funding of financial inclusion-related activities

Recommendation 2: Examine the possibility for greater pooling of resources in terms of administration, coordination and delivery of services

One of the prime examples of such pooling of resources would be in the advice section. We understand that the Council is considering creating a single social enterprise delivering debt, welfare rights and money advice. We would recommend the creation of such a body given that it would allow for considerable pooling of resources by sharing the collating and processing of performance management information data, sharing of chief executive, a single board, and sharing of payroll, HR, marketing, rent and front-office resources. The realisation of many of these benefits would depend on co-location. Also the creation of a financial inclusion charity (Recommendation 1) and a financial inclusion awareness post (Recommendation 9) could contribute to greater pooling of resources, by for example pooling bidding and fund-raising resources

Strategic actions

a) More efficient model maximising resources and results for end-users

Operational actions

Short-term actions

a) Identify possible partners and interventions
b) Identify premises
c) Pick strategic lead

Medium-term actions

a) Develop operational plan
b) Implement plan

Long-term actions

a) Deliver on cost savings and improved service

Measurable outcomes

a) Reduced operating and overhead costs of pooled services
b) Reduced cost per case of pooled services

Recommendations: Planning policy

Recommendation 3: Submission of evidence as part of next review of planning policy for putting restrictions on the concentration and expansion of the sub-

prime sector

Planning policy may potentially be a lever to prevent the concentration or establishment of sub-prime and predatory lenders in deprived communities. To have such limitations on the concentrations of sub-prime lenders, there needs to be a case for it backed up by clear evidence. This evidence may relate to documented health effects, negative effects on shopping street (reducing footfall etc) and house prices. There is, for example, currently a policy around hot food outlets in the core strategy. In this policy the planning department can withhold planning permission to such shops (especially in case of locating close to schools etc) on the basis that it devalues surrounding properties and is bad for health.

We recommend that the financial inclusion forum gather and submit evidence to change planning as part of the core strategy. The evidence could relate to the negative effect on shopping street through reduced footfall and on house prices. There is little prospect to change the new core strategy which is due to be finalised at the end of 2011. The strategy will cover the period 2012-27. However, it is likely that this strategy will be reviewed and updated in 5 years time, which would be a good time to put forward evidence.

Strategic actions

a) Promoting financially inclusive communities

Operational actions

Short-term actions

a) Liaise with planning regarding requirements for submission of evidence
b) Set up working group to lead on review of evidence
c) Identify data needed

Medium-term actions

a) Collect data
b) Conduct review
c) Present case to councillors, including pros and cons, ways of limiting growth of sub-prime sector

Long-term actions

a) Submit review if endorsed by Council
b) Amend planning policy

Measurable outcomes

a) Planning policy amended to include clauses limiting growth of sub-prime sector
b) Decrease or no further increase in concentration or clustering of sub-prime lenders in deprived neighbourhoods

Recommendations: Corporate procurement

Recommendation 4: Put case forward for inclusion of the promotion of financial inclusion as a criterion in the procurement process

Social housing landlords use procurement policy with great success to promote financial inclusion, including negotiating cheaper deals for clients, easing ID requirements for opening bank accounts and securing funding for community projects. We recommend that the Council looks into the possibility of using procurement policy in a similar fashion. One of the most obvious examples of this is by requiring that the bank serving RMBC actively promote the basic bank account, provide financial education and/or contribute towards a local financial inclusion fund. But it could also be used in procurement of services more widely

Strategic actions

a) Promote greater contribution of private sector in the promotion of financial inclusion

Operational actions

Short-term actions

a) Liaise with social housing landlords on their procurement documents and process (given many of them already use procurement process to promote financial inclusion)
b) Identify sectors and services where scope exists for addressing financial inclusion (most likely banks, insurance companies and other creditors)
c) Identify specific changes to procurement policy to be made following social housing procurement review

Medium-term actions

a) Re-draft tender documents and procurement policies to include clauses on financial inclusion in preparation of next round of procurement for approval by councillors

Long-term actions

a) Implement revised tendering process and procurement policy

Measurable outcomes

a) A revised procurement policy which takes into account financial inclusion
b) Increased private sector funding of financial inclusion activities

Recommendations: Corporate debt policy

Recommendation 5: Develop a corporate debt policy that takes all debt owed to council into account

We recommend that RMBC develop a corporate debt policy that takes all the debt owed to council into account. This should include a clear and explicit recognition of the importance of facilitating access to advice. It should also be sensitive to the needs of the debtor.

Strategic actions

a) Promote a unified and sensitive approach to debt collection across the Council

Operational actions

Short-term actions

a) Set up a working group to lead the work on a corporate debt policy
b) Assess costs and benefits of unified approach

Medium-term actions

a) Develop a corporate debt policy for approval by councillors

Long-term actions

a) Implement corporate debt policy

Measurable outcomes

a) A revised corporate debt policy

Recommendations: Banking and transaction services

Recommendation 6: Pilot a laptop bank scheme

One of the key problems in terms of banking and transaction services is that households will often own a bank account but will only make limited use of it. We recommend that RMBC and its stakeholders pilot a laptop bank scheme to try and encourage tenants to move away from managing their money on a cash basis, as internet banking could give them relatively easy access and control. Under such a scheme tenants or residents would be able to borrow a laptop for a six-week' period (or similar period) and would be given a two-hour tutorial per week. In terms of cost implications, there would need to be investments made in 15 laptops and equipment (in the region of £15,000). If trialled in one limited geographical area, then there would be a need for a tutor for three days a week assuming that 10 laptops are out simultaneously (remaining 5 are under maintenance). In addition there would be costs in the form of managing the project and for maintenance and basic repairs of the computers. The funding for this project would be sought through applications to charitable foundations. It could also include getting private sector companies to contribute on a pro-bono basis (e.g. computer training, laptops).

A social housing landlord may be a suitable provider and its tenants may be suitable beneficiaries. Cambridge Housing Society has a long-running and successful laptop scheme. Alternatively community groups may also be a suitable provider

Strategic actions

a) Promote greater usage of banking services and greater skills of financially excluded households. Would also promote employability

Operational actions

Short-term actions

a) Identify potential providers, beneficiaries and funders
b) Agree on provider and beneficiaries

Medium-term actions

a) Develop a bid to a charitable foundation (Friends Provident Foundation could be an option)
b) Submit bid

Long-term actions

a) Pilot if successful

Measurable outcomes

a) Number of beneficiaries
b) Number of beneficiaries gaining employment

Recommendations: Debt and money advice provision

Recommendation 7: Investigate a local private sector levy or contribution to

fund provision

Specialist money and debt advice and casework will most likely be severely affected by funding cuts. Private sector companies tend to make contributions towards CCCS. We suggest that the Council and stakeholders examine the possibility of introducing a local levy or some other way of enticing private sector creditors to contribute to the cost of advice.

Strategic actions

a) Reduce not-for-profit debt advice sector dependence on public funding
b) Protect current debt advice provision

Operational actions

Short-term actions

a) Set up working group to assess possibility of incorporating levy in granting of planning applications, contracts (procurement policy) and on voluntary basis

Medium-term actions

a) Develop a proposal
b) Put proposal to councillors

Long-term actions

a) Introduce if approved by Council

Measurable outcomes

a) Increased private sector funding of the local debt advice sector
b) Maintain number of debt advisers in the sector
c) Maintain number of debt advice clients in the sector

Recommendation 8: Investigate and pilot a non-for-profit fee charging advice service

In light of the potentially serious funding issues facing the debt advice sector, we recommend that charging a fee on payment plans is scoped and piloted. This must carefully consider the potential impact on the clients. Depending on the mix of clients it might be possible to have a means-tested model whereby there is an element of cross-subsidisation of poorer clients

Strategic actions

a) Reduce not-for-profit debt advice sector dependence on public funding
b) Protect current debt advice provision

Operational actions

Short-term actions

a) Identify project lead
b) Examine potential of past debt advice clients contributing to costs of advice provision (through payment plans) using data on debt advice clients

Medium-term actions

a) Evaluate financial and social costs and benefits of different models to assess viability
b) Develop a model

Long-term actions

a) Pilot model if deemed viable in assessment

Measurable outcomes

a) Increased private sector funding of the local debt advice sector
b) Maintain number of debt advisers in the sector
c) Maintain number of debt advice clients in the sector

Recommendations: Financial capability

Recommendation 9: Launch a boroughwide financial inclusion awareness post

We recommend that the Council and its stakeholder set up a post to offer free financial inclusion awareness training for staff and volunteers, especially frontline staff, and bespoke support directly to individuals and households at risk of financial exclusion on a one-to-one basis or to small groups in a range of issues related to financial exclusion, for example aiding someone in setting up a bank account or basic budgeting. These individuals were referred to the project by agencies and organisations. This could potentially require less than one FT staff resource, which could potentially be seconded or be funded by a group of stakeholders. This service would raise the awareness of staff groups trained.

Strategic actions

a) Enhance awareness of financial exclusion among frontline staff
b) Enhance financial capability and awareness among financially excluded individuals and households

Operational actions

Short-term actions

a) Identify host or resources to launch financial inclusion awareness post
b) Establish remit and referral process for use of post

Medium-term actions

a) Hire or second individual or individuals for role
b) Publicise role of financial inclusion awareness post and contact details

Long-term actions

a) Deliver financial inclusion awareness training of frontline staff and financially excluded individuals and households

Measurable outcomes

a) Number of frontline staff trained
b) Number of financially excluded individuals and households

Recommendations: Insurance

Recommendation 10: Conduct regular benchmarking of the take-up of contents insurance

There was a low degree of ownership of contents insurance in the sample. The most effective tool of increasing coverage of contents insurance is through the social housing landlords, given their ability to secure low premiums, the contact they have with their tenants and as social housing tenants are the single-greatest group of financially excluded. We recommend that landlords share data on up-take of home contents insurance on a regular basis (quarterly or every other quarter) and discuss trends and their approach to increasing uptake. This could happen through the RSL sub-group or it could be new RSL insurance group. This would enhance the sharing of best practice and possibly increase up-take.

Strategic actions

a) Increase take-up of home contents insurance

Operational actions

Short-term actions

a) Set up insurance working group with membership of social housing landlords offering home contents insurance (in-house or arms-length)
b) Decide on frequency of meeting, type of data shared and how data is disseminated

Medium-term actions

a) Regular insurance working group meetings to discuss trends in up-take and best practice in promotion of up-take
b) The group shares best practice with financial inclusion stakeholders more broadly

Long-term actions

a) Coordinating marketing drives and other actions to promote greater up-take of home contents insurance

Measurable outcomes

a) Increased up-take of home contents insurance provided by social housing landlords

Recommendations: Savings

Recommendation 11: Explore the potential of developing a savings-with-rent schemes

The survey revealed a low propensity to save. We suggest that the potential for developing a savings-with-rent scheme in partnership with the new affordable credit provider is explored. An example of a similar scheme would be East Lancs Moneyline. Their policy is to ask borrowers to increase their loan repayments to the next round number (say from £17 to £20) with the difference going to a savings account. They have found this to be a very effective way of boosting the propensity to save. A similar arrangement could be made with social housing landlords whereby tenants are encouraged to round up their rent payments to a round number with the difference going to a credit union or bank savings account.

Strategic actions

a) Increase the propensity to save among financially excluded households and individuals

Operational actions

Short-term actions

a) Identify financial service providers and social housing landlords interested in participating

b) Discuss potential models and assess viability

Medium-term actions

a) Pilot savings-with-rent scheme

Long-term actions

a) Roll out scheme if successful
b) Consider viability of widening scheme to include other payments such as council tax payments

Measurable outcomes

a) Amount saved through scheme
b) Number of tenants saving through scheme

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