Salford City Partnership

The 2015 Annual Financial Inclusion Survey of Salford

The Financial Inclusion Practitioner's Group,
December 2015.

University of Salford MANCHESTER

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Delegation of Financial Inclusion Practitioners Group

Foreword

What is financial inclusion?

Finance is a key part of modern society. According to the Financial Inclusion Commission, financial inclusion means belonging to a mainstream financial system that is fit for purpose and for everyone regardless of income. This can enable participation in everyday life in a variety of fundamental ways and increase life opportunities. For those who are financially excluded, there are financial consequences meaning the poor pay more (the poverty premium) but also wider impacts affecting education, employment, housing, health and well being.

Background to Financial Inclusion work.

Although the term financial inclusion was first used in the early 1990's it became the core element of the work of the Policy Action Team within the newly formed Social Exclusion Unit during 1998. Their report in November 1999 highlighted three areas where progress needed to be made; Credit Unions who could encourage savings; provide access to affordable credit and form a bridge to mainstream financial services, insurance particularly house insurance and banking focusing on simple bank accounts

The budget statement of 2004 announced £210 million for financial inclusion with objectives to halve the number of unbanked families, support face to face money advice and not for profit lenders. To monitor outcomes, the Financial Inclusion Task force was created within HM Treasury and overall between 2005 and 2011, £250 million was directed through the "Growth Fund" to stimulate affordable credit provision, £12 million for Financial Inclusion Champions to coordinate activities and £74 million for free face to face advice.

In a 2007 follow up report, **Financial Inclusion – The Way Forward**, the government confirmed three priorities that everyone;

- **should be able to manage their money effectively and securely, through having a bank account and the confidence and capability to get the most from it;**
- **should be able to plan for the future with a reasonable degree of security; therefore affordable credit, savings accounts and simple insurance products should be available to all who need them;**
- **should have the information, support and confidence they need to prevent avoidable financial difficulty, and to know where to turn if they do find themselves in financial distress.**

It is no wonder that an MP, in an effort to understand financial exclusion came up with the slogan; **"as simple as ABC - advice, banking and credit"**.

Salford's Financial Inclusion partnership

Salford's Financial Inclusion formal partnership began in 2004. Partners collectively recognised the need to work together to promote financial inclusion in a city with significant levels of deprivation and family poverty.

The Financial Inclusion Practitioner's Group (FIPG) is Chaired by Councillor Paul Dennett and the partnership group holds responsibility for the policy, strategy and coordination of services to enable a city-wide response to financial exclusion.

The group aims to increase access to advice, affordable credit, saving and banking services and improve financial capability.

Membership is drawn from a range of stakeholders and has changed over time to reflect the changing landscape and includes representatives from the advice sector, affordable credit providers, Trade Unions, social landlords, the council and the community and voluntary sector.

Recent initiatives include;

- **Series of frontline worker awareness training on welfare rights and debt advice issues including Universal Credit**
- **Loan shark awareness campaign with the Illegal Money Lending Team and GMP**

http://www.salford.gov.uk/salfordagainstloansharks.htm

- **Report into DWP Conditionality and Benefit sanctions**

http://www.partnersinsalford.org/documents/DWP_Conditionality_and_Sanctions_Interim_Report_final_(2).pdfeport into DWP Conditionality and Benefit sanctions in Salford

Recommendations of the FIPG

Since the financial crash of 2008, mainstream financial services have contracted to the detriment of many of our residents. Banks have continued to physically withdraw from the High Street, retrenched the number of financial products and cherry picked who they will serve. This provided space for products such as Payday loans, Cheque Cashing and the resurrection of Pawnbroking.

The landscape is now one of significant cuts to welfare benefits with an increasing range and depth in benefit sanctions; falling living standards; growing inequality; growth of low pay / no pay cycle and zero hours contracts; debt to income ratios that are returning to edge of crash levels and rising housing costs, particularly in the private rented sector. Both the use of food banks and the numbers of residents with priority debts (rent; utilities etc) continue to rise. These are not circumstances in which financial exclusion is likely to diminish.

If financial inclusion as originally conceived could be seen as getting people a seat on the train of financial prosperity, in an age of austerity, it might be seen as catching those falling off.

FIPG recommend that this survey is utilised by practitioners, councillors and stakeholders to;

- **take stock of the current position in the city and identify gaps in our knowledge**
- **monitor trends setting them in the context of wider policy developments reforms such as Welfare Reform, the extension of right to buy and the introduction of the national living wage**
- **highlight the efforts of local stakeholders - we recognise that financial inclusion is a moving target and the survey will be used to identify the most relevant indicators to monitor the impact of this work as a partnership**
- **create an evidence base to make recommendations to local policymakers and commissioners.**

Financial Inclusion can be conceived as a social investment into building stronger resilient communities with fully active and healthy economic citizens.

This report highlights that the work does make a difference but there is a difference between work which is palliative and work that enables sustained change. This will involve harnessing the assets at our disposal to make best use of the city's resources.

FIPG recommends that Salford Credit Union is best placed to become the central dynamo which drives a financial inclusion strategy for the city. We recommend that partners commit to investment into Salford Credit Union in order that they can develop to provide more accessible and attractive products to attract members from across the community .

With thanks to the following organisations who have contributed to this report;

Salford City Council, Salford Citizens Advice, Salford Credit Union, Moneyline, My Home Finance, Affinity Sutton, City West, Salix Homes, Great Places and Guinness Partnership.

With very special thanks to Pål Vik, Research Fellow at Community Finance Solutions, University of Salford for producing this report on behalf of the group.

Councillor Paul Dennett

Introduction

The 2015 Salford Financial Inclusion Survey draws on primary data from stakeholders and national statistics to draw a picture of the current state of financial exclusion in Salford. The report focuses on indicators in three areas: access to banking, debt issues and advice, and affordable credit.

Access to banking

Policy context

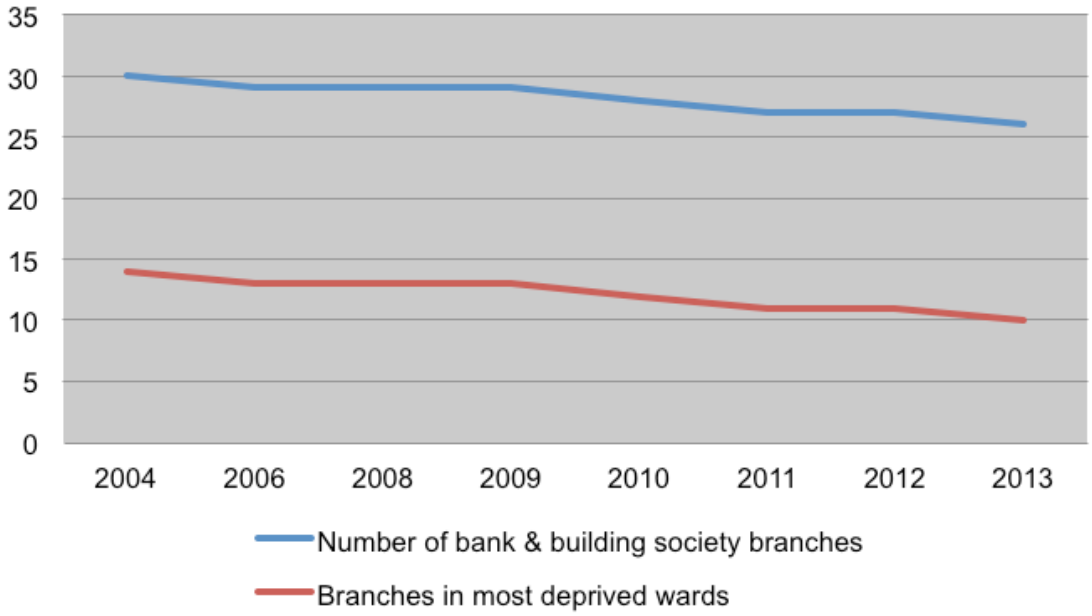
Access to banking and transaction services is central to the financial inclusion agenda. Without access to bank accounts, households cannot gain employment or benefit from lower bills linked to paying by direct debit. Despite considerable progress in reducing the numbers of households without bank accounts, it is estimated that around 1.4m people in the UK do not have a bank account.[1] Moreover, low-income households have often struggled to use and manage accounts, especially current accounts, direct debits and overdraft facilities. According to the Department of Work and Pensions, 4m incur regular bank charges and 850,000 incur "crippling" levels of charges. In response to this, the nine largest banks and building societies agreed with the Government in December 2014 to promote the basic bank account to customers not qualifying for a current account and scrap fees for unpaid payments and overdrawn balance.

Access to banking in Salford

There is a lack of local data on bank account ownership and bank charges. The report therefore looks at a number of alternative measures, including bank infrastructure and access to payment services.

Chart 1 shows the number of branches in Salford and in the most deprived wards of the city.

Chart 1: Bank & building society branches in Salford

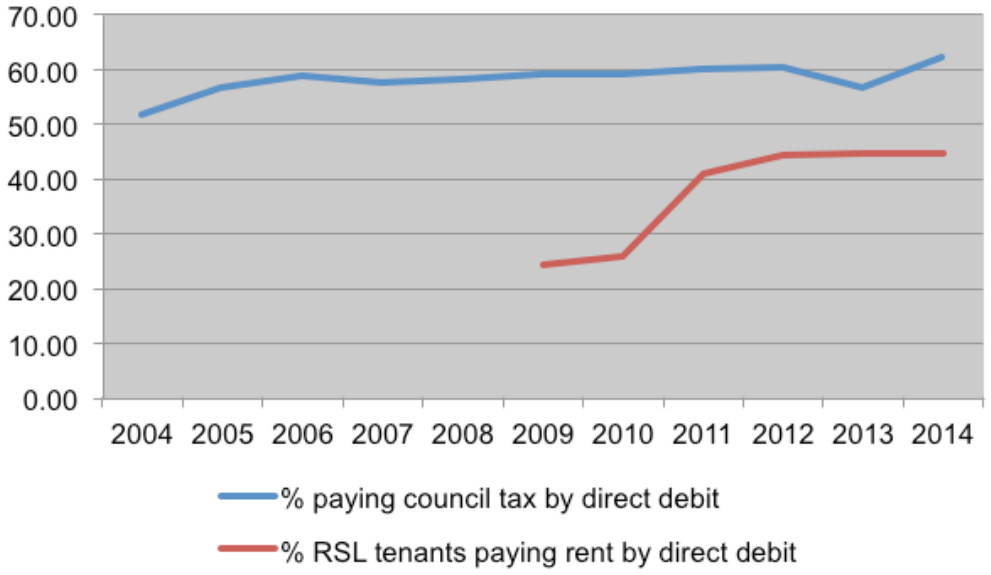


[1] Department of Work and Pensions (2012). Feasibility Study Report for the DWP Credit Union Expansion Committee. Prepared by the Project Steering Group Committee, May 2012.

Overall, the number of bank and building society branches in Salford has fallen from 30 in 2004 to 26 in 2014. All of the branch closures in Salford have taken place in the wards among the 10% most deprived wards in the country. There are seven wards without a bank branch. Most branches are concentrated in Swinton South and Eccles. While the number of branches in less deprived areas has remained stable, there are fewer and a decreasing number of branches in the most deprived wards.

Chart 2 shows the proportion of residents paying their council tax by direct debit and the percentage of social housing tenants paying their rent by direct debit.

Chart 2: Payment for services by direct debit (%)



The proportion of RSL tenants paying rent by direct debit has increased considerably, from 24% to 44%, while the percentage of residents paying council tax by direct debit has risen from 52% to 62%.

Debt issues and advice

Policy context

Last year saw welcome progress on payday lending following intervention by the Financial Conduct Authority. However, the overall trend is one of rising demand for debt advice based on increasing insecurity (insecure work and insecure housing). The Office of Budget Responsibility predicts that debt-to-income ratios will soon exceed pre-crisis levels. Demand for debt advice is at an historical high with the Money Advice Service (MAS) reporting 9m in serious arrears in the UK. All advice agencies have seen rises in priority debts with council tax debt now the most common debt dealt with by the CAB. Private rented sector arrears also increased significantly reflecting doubling of this sector in the last 10 years. Research by MAS shows that 1 in 2 of all those seeking debt advice have a diagnosed mental health condition. The Poverty and Social Exclusion website confirms that there has been significant falls in living standards, particularly for the most vulnerable.

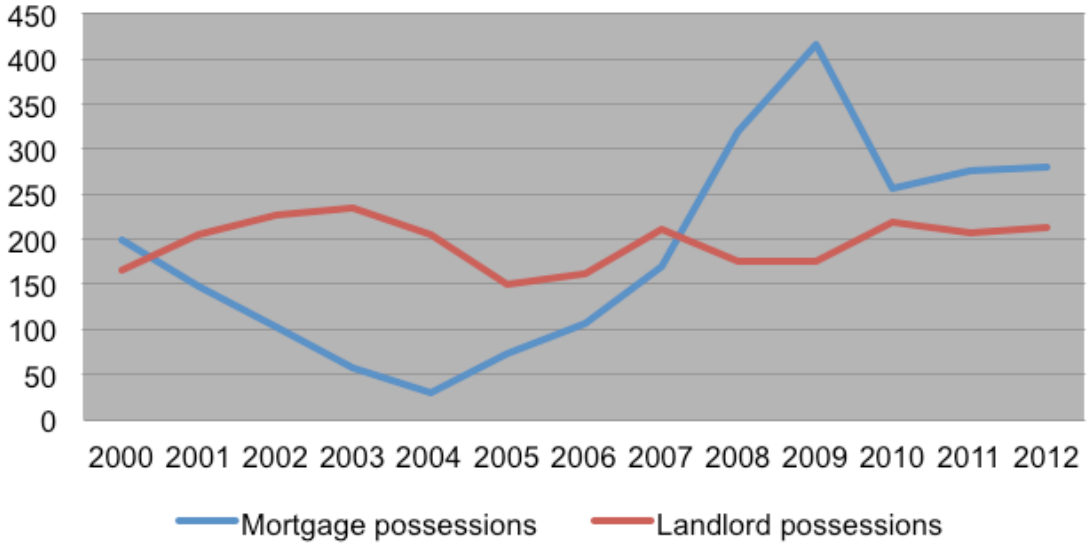
Rising zero hours contracts; no pay – low pay and range of cuts to social welfare has meant many debtors lives have become more insecure, despite historically low interest rates. Advising vulnerable clients has become more problematic with many unable to meet essential needs (reflected in rising use of foodbanks) let alone debts. At a time of great demand, advice agencies also have to cope with increased intervention by both MAS and the FCA.

Debt issues and advice in Salford

Given the level of deprivation in the city, there is likely to be considerable demand for money and debt advice in Salford. A mapping exercise of debt advice by the University of Salford in 2010 revealed that there were 18 organisations providing money and the debt advice, the majority of which provided light touch advice and guidance. [2] The main providers of comprehensive money and debt advice in Salford are Salford Welfare Rights and Salford CAB.

Chart 3 shows the number of repossessions by lenders and landlords processed by the County Court.

Chart 3: Mortgage and landlord repossessions in Salford



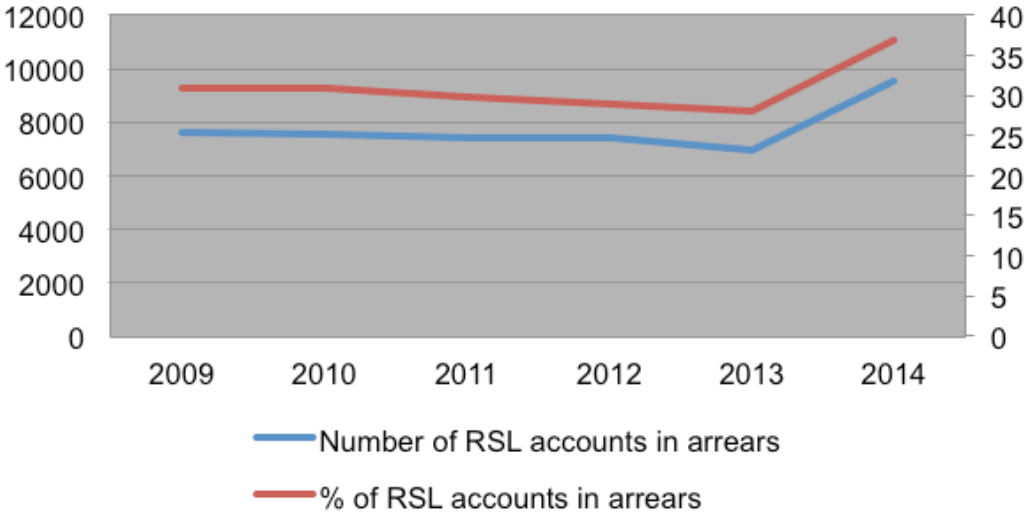
Mortgage and landlord repossession actions in Salford largely follow the national trend. Landlord repossessions increased considerably in the decade leading up to 2003 and then started falling again. The number of mortgage repossessions increased 2003-2009, and has since fallen. Increasing interest rates account for much of the rise in mortgage repossessions between 2003 and 2007. The steep increases in repossessions in 2007 to 2009 can be explained by the financial crisis and the subsequent recession. The subsequent fall in the number of actions can be explained by:

- Falling interest rates
- Lenders have been more proactive in how they manage customers in difficulties
- Government interventions, such as the Mortgage Rescue Scheme
- The introduction of the Mortgage Pre-Action Protocol
- Decreasing number of owner-occupiers

[2] "Audit of free-to-client face-to-face money advice in Salford – final technical report," report prepared by the University of Salford for Salford City Council September 2010

Chart 4 shows the number and proportion of social housing tenants' accounts that are in arrears.

Chart 4: RSL accounts in arrears in Salford

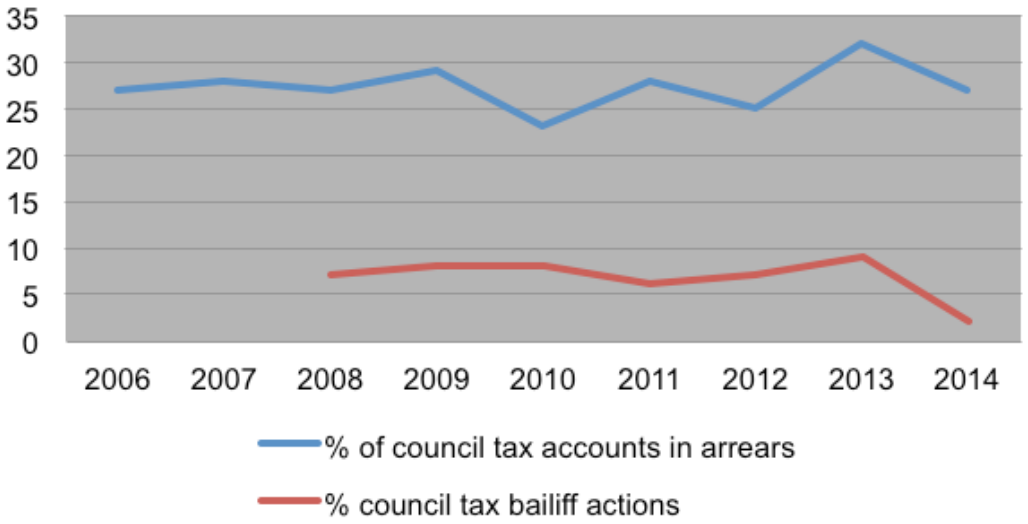


The number and proportion of tenants in arrears fell from 7,600 and 31% in 2009 to around 7,000 or 28% in 2013 and then increased significantly to 9,500 or 37% in 2014. The removal of the spare room subsidy is believed to have significantly impacted on increased arrears in 2014.

In addition to being a major player in promoting financial inclusion, Salford City Council is, like other local councils, a major creditor in the city.

Chart 5 shows the proportion of council tax accounts that are currently in arrears.

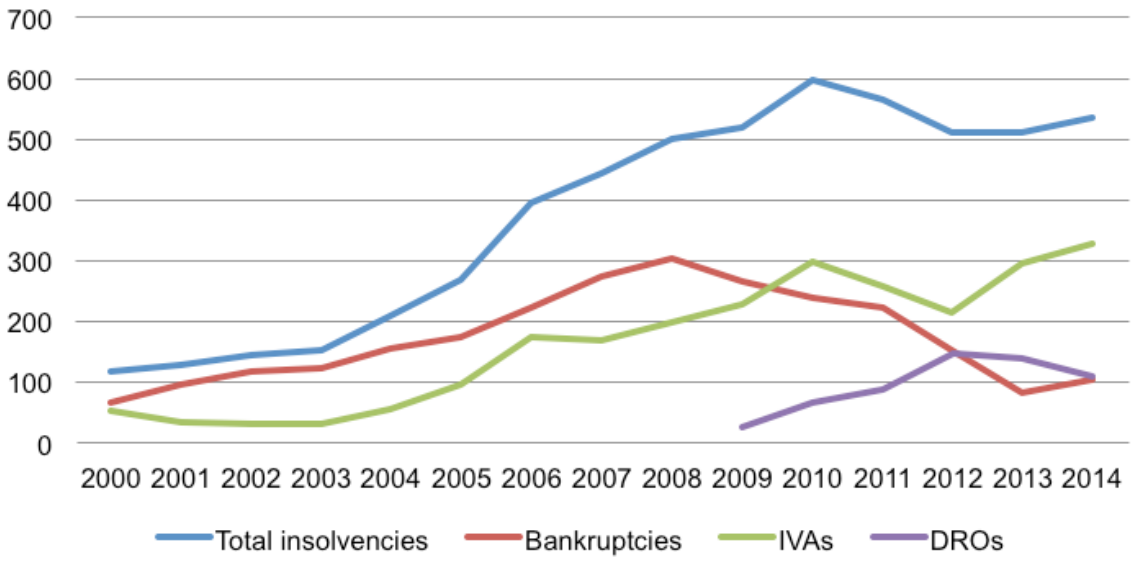
Chart 5: Salford Council Tax arrears (%)



Council tax arrears appear to be relatively stable, oscillating around 27% (or around 28,000 accounts), going down to 23% in 2010 and peaking at 32% in 2013. Similarly, the number of council tax bailiff actions falls between 7-9% (7,000-9,000 accounts) of the total number of accounts until 2014 when it falls dramatically to 2% or 2,300 accounts.

Chart 6 shows another important indicator of the levels of overindebtedness: the number of individual insolvencies in Salford since 2000.

Chart 6: Number of insolvencies in Salford



There are three forms of personal insolvencies:

- **Bankruptcies:** A bankruptcy is available to anyone with assets who have problems repaying their debts. Under this form of debt relief the person's assets are transferred to a third person (licensed insolvency practitioner or official receiver) who realises them and distributes proceeds to creditors
- **Debt relief order (DRO):** This form of debt relief is aimed at people on low incomes with few assets and debts of less than £20,000. Person is discharged from debt within 12 months and there is no distribution to creditors.
- **Individual voluntary arrangements (IVAs):** An IVA is a voluntary means of repaying creditors some or all of what they are owed. The arrangement needs to be approved by 75% or more of creditors and they are supervised by licensed insolvency practitioners.

The number of bankruptcies in Salford increased from 2000 peaking at around 300 in 2007 after which it has been falling. This is also the trend for England and Wales. In Salford, the number of IVAs has been increasing since around 2003 reaching 327 in 2014. Since 2007, the number of IVAs per 10,000 inhabitants has been considerably higher in Salford relative to the national average.

The main providers of advice to help residents deal with debts are Salford CAB and Salford Welfare Rights. Table 1 provides some details for the debt advice provided by the two agencies.

Table 1: Debt advice provision in Salford			
Number of debt advice clients	**2012**	**2013**	**2014**
Salford CAB			3,148
Salford Welfare Rights	542	579	579

The Welfare Rights and Debt Advice Service sees between 540 and 580 debt advice clients. In addition, the unit provides advice on social security issues. Salford CAB is the largest provider of debt advice with in excess of 3,000 clients in 2014. Although we have not been able to capture comparable and accurate data on the issue, Salford CAB believe that its debt profile to be more weighted to priority and serious debts than is the case for the National CABx profile due to the high level of deprivation in Salford.

Case study one: Advice

"We received a request from a homeless man whose only source of income was from the sale of The Big Issue. He was living in a hostel where he was regularly subjected to threats and violence and was desperate to move out. We worked with him over a number of months to build up some savings until we were able to agree a small loan to enable him to move out of the hostel using the funds as a deposit for a privately rented flat.

The member has continued to save and borrow from the Credit Union and appeared to be doing really well, until he contacted us when served with an eviction notice due to £600 of rent arrears. We were able to negotiate with the landlord and prevent the eviction by providing a loan to clear the arrears as his savings were sufficient for us to be able to do this. That debt has now been repaid, and we have recently been able to agree a loan for him to take his first holiday abroad."

Salford Credit Union

Affordable credit

Policy context

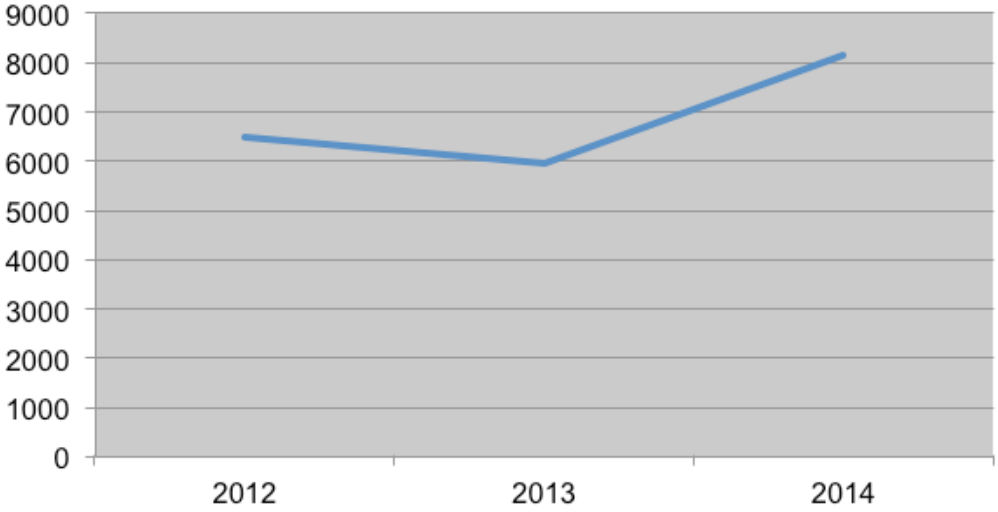
High cost credit providers such as payday lenders, home credit companies and pawnbrokers constitute a drain on local economies and households. Research carried out by the University of Salford in 2008 estimated that over £3m was leaving Salford in the form of interest payments to such providers. [3] Affordable credit providers, such as Community Development Finance Institutions (CDFIs) and credit unions, play an important in the financial inclusion agenda by serving as an ethical and affordable alternative to high cost credit providers. However, they have yet to match the scale of high cost providers. CDFIs made loans to 42,000 households in 2014. In comparison, it is estimated that home credit providers and payday lending companies have 2.4m and 2m customers respectively. Credit unions have 1.2m members across the UK but also serve less excluded households.

Affordable credit provision in Salford

Salford has one credit union, Salford Credit Union, and two CDFIs, Moneyline and My Home Finance.

Chart 7 shows the total number of loans made by these three providers over the last three years.

Chart 7: Affordable loan provision in Salford



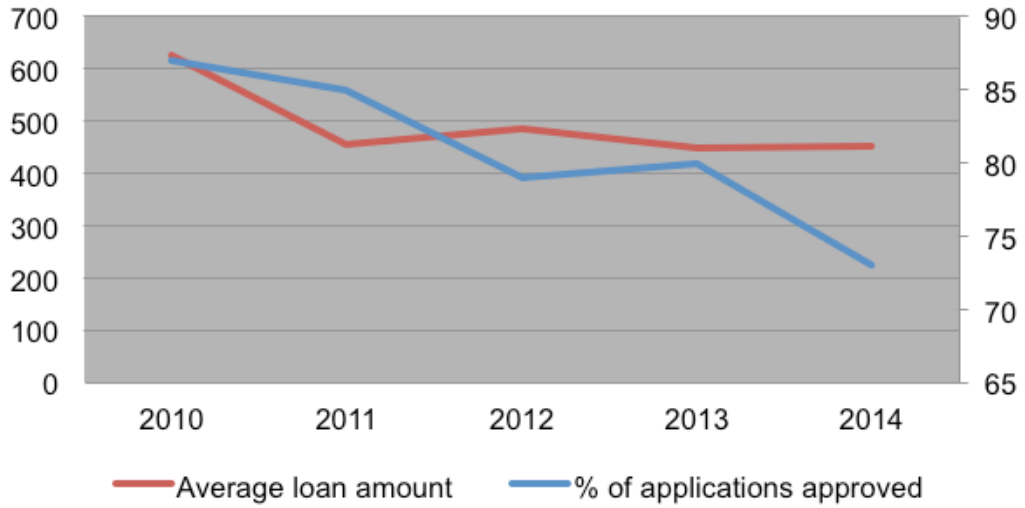
Combined the three affordable credit providers in Salford made over 8,000 loans in the last year, up from around 6,500 in 2012. Most of this is due to growth in CDFI lending.

Chart 8 shows the average loan amount and the percentage of loan applications that were approved. The average loan amount (on the left axis) is interesting because it is often used as a proxy for deprivation (i.e. lower the loan the more deprived the customer). The loan approval rate (on the right axis) is important because it indicates how partner organisations may help boost affordable credit

[3] "Research into financial exclusion in Salford – final technical report," submitted to Salford City Council in September 2008.

provision. A low rate suggests that expanding supply will require support to enable providers to take on higher risk borrowers, while a high rate indicates that an increase in referrals would be helpful.

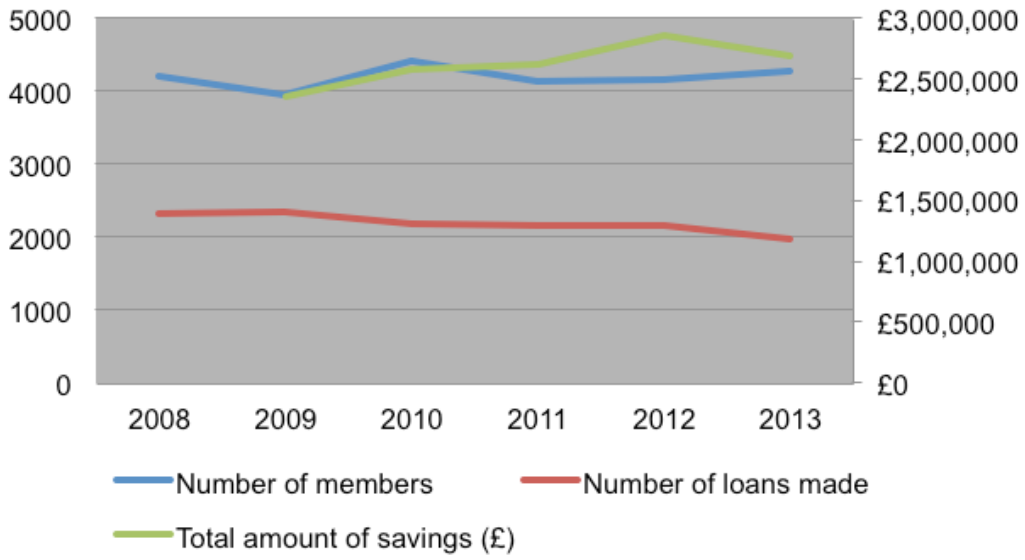
Chart 8: Average loan amount and approval rate



The average loan amount has fallen from over £600 in 2010 to around £450 in 2014. This is mainly because the proportion of loans provided by My Home Finance and Moneyline has increased. The average loans of these two providers are around £350-£450 compared with £600-£800 for the credit union. Credit unions tend to serve a wider segment of the population, while CDFIs focus on serving only the most excluded. The percentage of applications that were approved has also fallen from 86% in 2010 to 76% in 2014.

Chart 9 displays the growth of Salford Credit Union since 2008. The axis on the left hand side refers to the number of current members and loans made per year, whilst the axis on the right hand side refers to the total amount of savings.

Chart 9: Growth Salford Credit Union



The number of members fell in 2009, increased in 2010 before stabilising and increasing slightly to 2013. There are a number of factors explaining these fluctuations:

- New members peaked in 2008 in relation to the launch of the Government's Growth Fund, enabling credit unions to provide loans to new members without any previous savings history.
- The fall in number of members in 2009 was partly related to the need to close the accounts of members who had borrowed money in 2008 but failed to repay them.
- The number of members increased again in 2013 due to a new pilot loan, again aimed at those members who had not previously saved with the Credit Union (maximum £300).
- In 2011 a major 'dormant account' exercise was carried out, which closed accounts with less than £10 or where there had been no activity for a number of years. The Credit Union has continued to do similar account reviews since then but in 2011 it had not been carried out for a number of years.

The total amount of savings held by credit union members increased year-on-year from 2009 and then fell in 2013, whilst the number of loans has been declining every year from 2,300 in 2008 to slightly below 2,000 in 2013.

Case study two – Advice

"Residents are contacting the service with no source of income having received a benefit sanction from Jobcentre. This means we need to make an urgent referral to Salford Discretionary Support Scheme for help with fuel and to arrange a food parcel. Often, people have not been told about DWP hardship payments so we advise on entitlement and how to apply. We liaise with Housing Benefit to ensure rent payments are not interrupted and often assist with an application for a Discretionary Housing Payment. People often survive with the support of relatives and friends but do fall into debt. We find that in many cases, the first they know about the sanction is when their money is stopped. People are not always advised about appeal rights so we spend time helping them to challenge decisions where a sanction is applied unlawfully."

Salford Welfare Rights and Debt Advice service.

Conclusion

The 2015 Salford financial inclusion survey shows that financial exclusion remains a key issue for residents of Salford:

- Over 13% of branches in Salford have closed over the past 10 years, disproportionally among most deprived wards, indicating that banks are continuing to withdraw from the most deprived communities;
- Local data on social housing rent arrears and landlord possessions highlight the negative impact of welfare reform on the most vulnerable in Salford. Whilst the number of mortgage repossessions has been falling since 2009, there has been a slight increase in landlord possessions (suggestive of impact of welfare reform) and a significant rise in the number of accounts in social housing rent arrears in 2014 largely attributable to the spare room tax.

The report also highlights the important work by the partners of the Financial Inclusion Practitioners' Group:

- Salford Credit Union, My Home Finance and Moneyline have expanded the provision of affordable credit by 25% to over 8,000 in 2014.
- Salford City Council and the local social housing landlords have encouraged an increasing proportion of tenants and residents to pay their rent and council tax electronically rather than in cash, thus contributing to greater financial inclusion.
- Salford Welfare Rights and Debt Advice Service and Salford Citizen's Advice have helped nearly 4,000 residents deal with debt problems.

Financial Inclusion Practitioner's Group

Councillor Paul Dennett	Executive Lead Member for Innovation, Growth and Prosperity
Richard Bundy	Principal Officer, Welfare Rights and Debt Advice Service Salford Council (SCC)
Steve Quinn	Debt Adviser, SCC
Debbie Witton	Senior Welfare Rights Officer, SCC
George Oldbury	Financial Resilience Officer, SCC
Bev Connor	Strategic Manager, Claims Management Team, SCC
Les Laws	Principal Officer - Urban Renewal (Affordable Warmth)
John Reehill	Manager (Information & Analysis)
Catherine Connors	Skills and Work Board Business Manager, SCC
Penny Applegate	Partnership Manager, Jobcentre Plus
Tom Togher	Chief Officer, Salford Citizen's Advice
Mike Wright	Salix Homes
Emma Huyton	Irwell Valley
Amanda Meredith	Guinness Partnership
Justin Freeman	City West
Sharon Lindsay	Together Housing
Rob Davies	Contour Homes
Mike Thorpe	The Broughton Trust
Joyce Kay	Church Action on Poverty
Pål Vik	University of Salford
Steve North	Branch Secretary, Salford City UNISON
Hazel Henley	My Home Finance
Sheila Murtagh	Chief Executive, Salford Credit Union
Alec McFadden	Manager, Salford Unemployed and Community Resource Centre
Vacant	Moneyline