

Financial Exclusion and Poverty

Historic Trends in Leeds

Executive Report



Leeds
CITY COUNCIL

RESEARCH REPORT FOR LEEDS CITY COUNCIL BY

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This is a summary report of key findings from the research and forms part of a suite of research on Financial Exclusion in Leeds.

To view the full report, accompanying documents and previous research please visit www.leeds.gov.uk/fi



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Financial Exclusion and Poverty Historic Trends in Leeds

Contents	Page
Foreword	2
Headline facts	3
Introduction	4
Overview of study	4
Economic and political context	5
The evolving nature of financial exclusion	5
<ul style="list-style-type: none">• Welfare reform• Food banks• Labour market• Digital inclusion• Banking• Savings• Credit• Debt	
Groups at risk of financial exclusion	7
<ul style="list-style-type: none">• Tenure• Lone parent• Income• Age	
The effectiveness of financial inclusion interventions	8
<ul style="list-style-type: none">• Awareness• Use• Outreach	
Conclusions	9

Foreword

Our vision is for Leeds to be the best city in the UK: one that is compassionate and caring with a strong economy, which tackles poverty and reduces inequalities. We want Leeds to be a city that is fair and sustainable, ambitious, creative and fun for all.

In Leeds we have long understood that achieving sustainable economic success means ensuring that households in the poorest areas of our city are able to access the opportunities that exist. Access to affordable financial services and free and independent money advice is key to ensuring that all residents have the means to access the opportunities available.

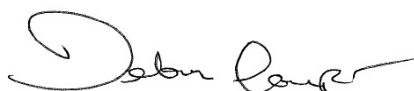
The Council's work to address financial exclusion started in 2004 with research which uncovered the extent of the issue in the city and provided the catalyst for a partnership approach to tackling the problems. Today we have one of the largest credit unions in the country, comprehensive and integrated advice provision and a national reputation on financial inclusion.

Back in 2004, key concerns highlighted by our research, were the significant number of residents without a bank account, with no savings and being unable to access affordable credit and instead using high cost doorstep lenders. This was at a time of national economic success and stability. Six years later following a global economic crisis a repeat of the 2004 research demonstrated that despite the great efforts to address financial exclusion in the city, the financial situation for residents in the most deprived neighbourhoods had worsened and financial exclusion had spread into more economically average areas.

Since 2010, economic recovery has been slow, there has been a rise in the number of people on low wages and insecure work. In 2018 poverty impacts more people in work than ever before. On top of this we have seen massive reductions in public spending, the introduction of welfare reforms and the rise of food banks in our communities. This latest research which repeats the studies undertaken in 2004 and 2010 enables us to understand how these changes have impacted residents and families in Leeds.

Worryingly, the 2018 research demonstrates that although financial situations have improved since 2010, financial exclusion is still at the same level that it was in 2004. Savings levels are low and credit is being used to cover day to day living expenses. This provides significant challenge for the Council and its partners as we see ever reducing resources coupled with increasing demand for services.

Despite this, we know that our work in this area is vitally important. Our ambition to be the best city in the UK can only be achieved if we tackle poverty and financial exclusion and reduce the inequality that blights our communities.



Councillor Debra Coupar
Leeds City Council
Deputy Leader and Executive Member for Communities

Financial Exclusion and Poverty

Historic Trends in Leeds

Economic Context

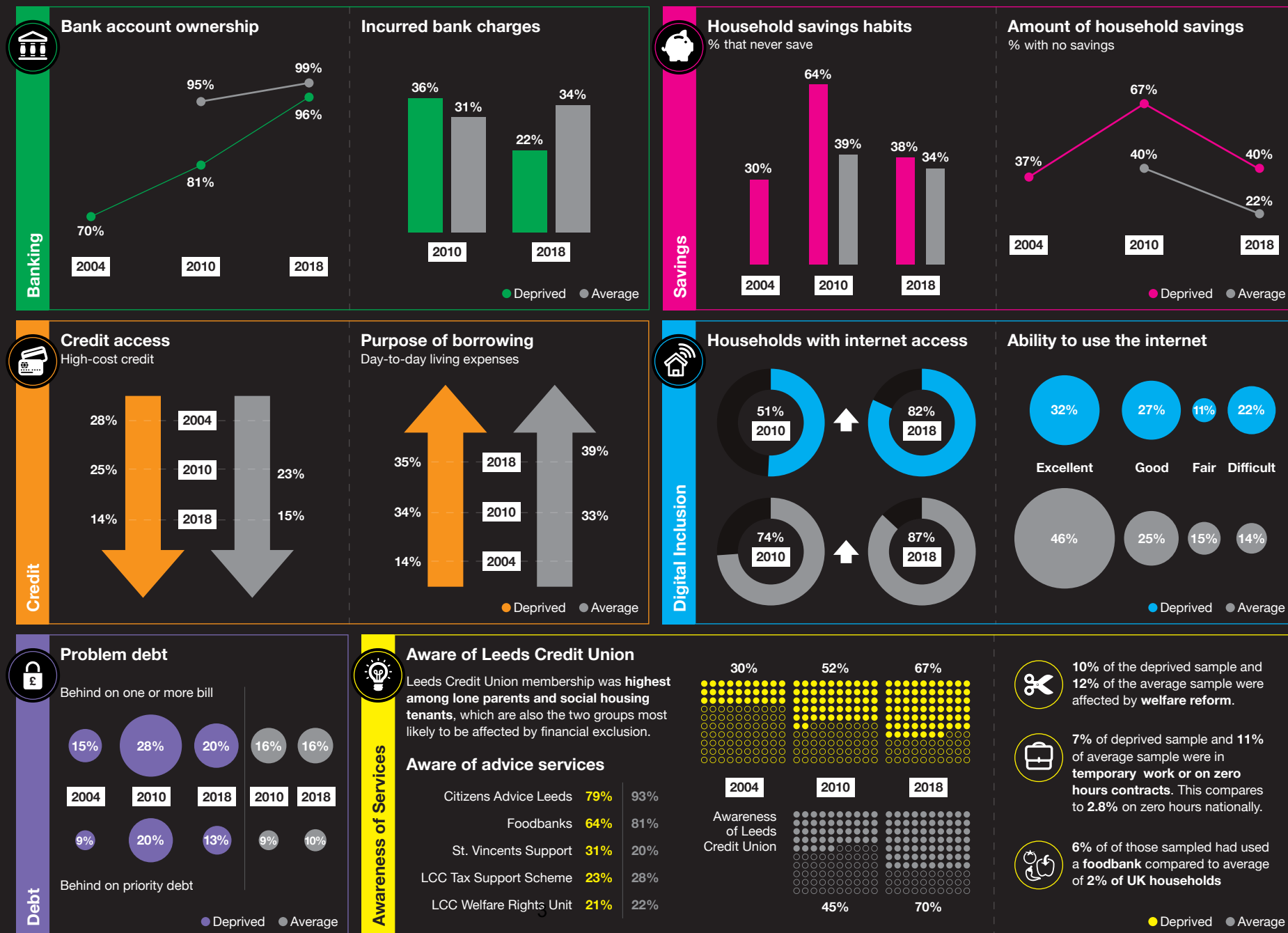
- 2004**
Boom years
- 2010**
Eye of the storm
- 2018**
Economic growth and austerity

Groups at Risk

- Social housing tenants
- Lone parents
- Low income households
- Younger people

Conclusions

- Economic context is important
- Recovery of savings habit back to 2004 levels
- Some easing of debt issues since 2010 but similar to 2004
- Fall in use of high cost credit
- Rise in the number of people borrowing for everyday living expenses



Debt

Problem debt



Category	Year	Deprived	Average
Behind on one or more bill	2004	15%	16%
	2010	28%	16%
	2018	20%	16%
Behind on priority debt	2004	9%	9%
	2010	20%	9%
	2018	13%	10%

Awareness of Services

Aware of Leeds Credit Union



Year	Deprived	Average
2004	30%	45%
2010	52%	45%
2018	67%	70%

Aware of advice services

Service	Deprived	Average
Citizens Advice Leeds	79%	93%
Foodbanks	64%	81%
St. Vincents Support	31%	20%
LCC Tax Support Scheme	23%	28%
LCC Welfare Rights Unit	21%	22%

Welfare Reform

10% of the deprived sample and 12% of the average sample were affected by welfare reform.

7% of deprived sample and 11% of average sample were in temporary work or on zero hours contracts. This compares to 2.8% on zero hours nationally.

6% of those sampled had used a foodbank compared to average of 2% of UK households

Introduction

Leeds City Council commissioned the University of Salford to undertake research into financial exclusion and poverty in the city. This is the third instalment of a series of research which began in 2004 and was repeated in 2010.

The purpose of the 2018 study was to provide a detailed understanding of the current situation in terms of financial exclusion and poverty in Leeds. Since the previous studies there has been a need to better understand how welfare reforms, the increased availability of high cost short term credit and the increase in the use of food banks is impacting on the finances and lives of Leeds residents. The data and evidence gathered from the research will help to direct future decisions on where resources should be focussed.

Overview of study

The report draws on three surveys conducted of households in deprived and economically average areas of the city in 2004, 2010 and 2018. Between March and May 2018, 922 individuals took part in the face to face survey, with 602 of these being within areas classified as 'deprived' and 320 as a counter-sample of areas classified as 'economically average'.

The deprived sample was designed to replicate the sample areas from the 2004 and 2010 research in order to allow comparison over time. These 'bespoke' areas typically covered parts of several Lower Super Output Areas (LSOAs) that were in the 10% (and in some cases 1%) most deprived in the country. Whilst it was acknowledged that the make-up of these areas and levels of various types of deprivation may have changed in the 14 years since the 2004 survey, analysis of these LSOAs in the 2015 Index of Multiple Deprivation showed that all remained within the 10% most deprived in England. In addition, the need for data comparability meant that the same areas were chosen once again.

The sample collected within these areas was designed to be representative based on data from the 2011 Census. Whilst data from the Census was nearly seven years old at the time of surveying, this was the only data source that allowed us to look at the key sampling criteria (age, gender, ethnic origin, and employment status) at an individual LSOA level and thus compile a sample frame specific to each bespoke area. Interviewers were given quotas based on gender, age, ethnic origin and employment status.

In addition to the face to face survey, the 2018 study included ten follow up qualitative interviews with residents in the deprived area sample. Ten in-depth interviews lasting up to an hour were carried out. The aim of the qualitative research was to provide more detailed insight into issues relating to financial management, including debt for Leeds residents. The research was intended to provide insight into the journey to debt, the challenges it poses and what solutions or actions residents may have tried to undertake to alleviate their situations.

	2004 survey	2010 survey	2018 survey
Deprived areas	410	602	602
Economically average ¹		300	320

¹Only conducted in 2010 and 2018

The report is also based on an analysis of management information from financial inclusion interventions. One must exercise some caution in comparing the results across the three years, as the researchers did not survey the same households over time, so any differences may also be influenced by differing sample characteristics.

Economic and political context

The economic and political context within which the three surveys were conducted differed in important aspects:

2004 – The boom years: The first survey in 2004 was conducted during an extended period of economic growth. The New Labour government had also introduced a range of national policy initiatives to address social and financial exclusion, including the Financial Inclusion Taskforce, Policy Action Teams, Savings Gateway and the Basic Bank account.

2010 – Eye of the storm: The 2010 survey was executed in the aftermath of the 2007-08 financial crisis and recession ending in 2009 leading to contraction of lending, job losses and rising debt and repossessions.

2018 – Economic growth and austerity: In 2018, when we conducted the last survey, the context had shifted yet again. Since 2010 the UK has been undergoing a prolonged period of low growth, falling real wages, changes in the labour market and an extensive series of reforms to the benefit and welfare system.

What does the 2018 survey tell us about the state of poverty and financial exclusion in Leeds?

The evolving nature of financial exclusion

Bank account ownership has increased significantly across all groups. However, many households do not actively use key features of the bank account, especially direct debits and standing orders, out of fear of losing control. Over half of the deprived sample still use prepayment meters to pay fuel bills. The savings habit has recovered from a very low point in 2010, though people are still significantly less likely to save now than in 2004. Similarly, there has been some easing of debt issues since 2010, though households are still significantly more likely to be in debt now than in 2004. In line with the national picture, high cost credit use has fallen but over a third of households borrow to cover day-to-day living costs.

The findings highlight the importance of context and the extraordinary circumstances in which the 2010 respondents found themselves. The UK economy was emerging from a recession and growth had only resumed at the end of 2009. Unemployment rose from around 5% in 2008 to around 8% in 2010. In the aftermath of the financial crisis, household finances had been under sustained pressure through falling house prices, rising interest rates and increasing number of mortgage repossessions. Yet, although there has been some improvement since 2010, the 2018 deprived area respondents are less resilient and prepared for a crisis than in 2004 with significantly lower propensity to save and higher likelihood of being in debt. This is worrying given the impending roll-out of Universal Credit, the potential fallout of Brexit and any future downturn.

The analysis of the survey data suggests the following about the evolution of financial exclusion in Leeds:

Welfare reform: Around 10-12% in both the average and deprived areas of the 2018 survey samples reported being affected by the current changes to the welfare system. This is possibly an underestimate as the technical nature of changes makes it hard for households to know if and which changes they have been affected by. Leeds had also not rolled out Universal Credit at the time of the survey.

Food bank use: The use of food banks is a core indicator of deprivation. 6% of the 2018 deprived and average sample had resorted to food banks in 2018. In comparison, Trussell Trust estimated delivering food parcels to nearly 666,000 individuals in 2017-18, equivalent to around 2% of the number of UK households.

In the qualitative study, one resident discussed how they used a food bank 3 or 4 times a month for food and washing powder and explained;

“...The people were lovely...being able to eat; I was starving hungry.”

Labour market changes: A considerable minority of 7% of the deprived sample and 11% of the average sample were in temporary, more precarious forms of employment, such as zero-hour contracts. Around 5-6% of both samples had been affected by redundancy, reduced pay or reduced hours in 2018 down from 14-16% in 2010.

Digital inclusion: 82% of the deprived sample and 87% of the economically average 2018 respondents had internet access up from 51% and 74% percent respectively. This is likely to be linked to the increase in smartphone ownership. A majority of respondents perceived their skills at using the internet as good and most found using the internet for a range of tasks quite or very easy. However, a significant minority – 22% of the deprived sample and 14% of the economically average – found using the internet difficult.

Among the people consulted for in-depth interviews, half of them did not use digital devices at all for money management. They were not interested, found their current methods worked well and, for some people, the digital methods seemed confusing. One interviewee commented:

“Too confusing for me – phones and apps and that....I know where I am with everything.”

Banking: In the deprived areas, there was a significant increase in bank account ownership from 70% in 2004; 81% in 2010 to 96% in 2018. In the economically average areas, 99% had a bank account in 2018. There was greater use of accounts with more respondents using online and phone banking to check balances and using direct debit to pay fuel bills. Around a quarter of the deprived area respondents had incurred bank charges from going overdrawn in 2018 down from 36% in 2010. In the economically average sample, there was a slight increase from 31% in 2010 to 34% in 2018.

In the qualitative study, everybody interviewed had a bank account. It was common for income/benefits to be paid into accounts and for bills to be paid from accounts. A few people had deliberately set up a ‘simple’ account for themselves, including one that couldn’t become overdrawn; and by refusing to have credit cards, one resident commented:

“I don’t do it [direct debit]. In the past, when I was working, when I was younger, before I had my son, I was getting bills taken out you know for like contract phones and they took my full wages once. So after that, I cancelled it and cancelled all direct debits. I wouldn’t do it again.”

Savings: In 2018, 34% of the deprived area respondents reported never saving and 40% had no savings whatsoever. This is significantly lower than in 2010 when 64% did not save and 67% had no savings. However, the respondents were still significantly less likely to save and

more likely to have no savings in 2018 than in 2004 (37% had no savings and 30% did not save in 2004).

One resident from the qualitative study commented:

“Usually, by the time I have budgeted for everything, there is not much left in the pot.”

Credit: Around 15% of the deprived area respondents reported using high cost sources of credit. This is significantly lower than in 2010 (25%) and 2004 (28%) and is possibly due to the contraction of these forms of credit, as well as a lower proportion of unemployed and households in the two lowest income brackets (below £6,000) annually in the 2018 survey. Regular credit use has remained largely unchanged. Among those that borrow, a third do so to cover day-to-day expenses, which is similar to 2010 but significantly higher than in 2004. In the average sample, 38% used regular credit in 2018, compared with 29% in 2010, and 15% used high cost credit, compared with 13% in 2010.

Debt: Levels of worry about debt and difficulties paying fuel bills have fallen significantly since 2010, back to 2004 levels. There has been a significant drop in the proportion behind on payments (including priority bills) since 2010 but the proportion behind on payments is still significantly higher in 2018 than in 2004.

Groups at risk of financial exclusion

There is extensive evidence to suggest that some types of households are more likely to be financially excluded than others. Our analysis suggests that there are a number of determinants of financial exclusion:

Tenure: The most important determinant of financial exclusion is tenure. Social housing tenants and to a lesser extent private tenants are significantly more likely than homeowners to face digital exclusion, lack access to banking services, use high cost credit and be in financial difficulty

Children/Lone Parents: Families with children and particularly lone parents are much less likely to save and will therefore be less resilient to any changes in their finances.

Income: People on low incomes and not in work are less likely to have a bank account and have savings.

Age: Younger age groups are less likely than older respondents to save and more likely to have debt problems. Respondents aged between 30 and 44 are also more likely to use high cost credit. Older and retired households are more experienced at managing their money and have more predictable income flows and costs though they are more likely to face digital exclusion issues.

The effectiveness of financial inclusion interventions

Since 2004 Leeds City Council and partners have been working to address financial exclusion in the city. Following on from the initial research the Financial Inclusion Partnership was established bringing together council services and a wide range of partners from advice, housing, health, higher education, universities and financial services. The partnership has been nationally recognised for its work to tackle financial exclusion and key achievements include:

- Supporting the development of Leeds Credit Union from 11,000 members in 2005 to over 31,000 in 2018.
- Developing an integrated city advice provision.
- Launching a high profile campaign to tackle high cost lending.
- Launching the Money Information Centre website www.leedsmic.org
- Undertaking training and awareness sessions with frontline staff to ensure they are equipped to refer people to the appropriate services for managing their money.
- Developing an integrated approach to collecting and managing corporate debt.
- Supporting innovative initiatives such as Ebor Gardens Money Buddies project.
- Having a key national voice on issues related to financial inclusion and high cost lending.

In the 2018 analysis, we considered the effectiveness of the financial inclusion interventions in reaching out to those most in need. We analysed the level of awareness, use and client characteristics. We drew the following conclusions:

Awareness: Two local financial inclusion interventions stood out in terms of awareness. First, there was a significant increase in awareness about Leeds Credit Union since 2010 and 2004. The vast majority of the respondents, around 70%, had heard of the credit union. Second, we found a very high level of awareness of Citizens Advice Leeds with nearly 80% in deprived sample and over 90% in economically average area having heard of the agency. This may be explained by the high profile of Citizens Advice and, to a lesser extent, credit unions nationally. There was also a high level of awareness of food banks with around 60% in deprived areas and over 80% in economically average communities saying they had heard of the service. Conversely, only around a quarter had heard of City Council services, including welfare and council tax support schemes.

Use: From management information we know that the credit union membership in Leeds has increased. This is also partially reflected in the survey data where we saw a significant increase in membership from 2004 to 2010 but largely unchanged since then. We observed a significant increase in seeking advice from 2004 and 2010 to 2018 from 11-14% to nearly 30%.

Outreach: The analysis of two largest organisations, Leeds Credit Union and Citizens Advice Leeds, suggests they reach those most in need. Credit union membership was highest among lone parents and social tenants, which are also the two groups most likely to be affected by financial exclusion. Private tenants were significantly less likely to be members, though they are also often affected by financial exclusion. Citizens Advice Leeds users were significantly more likely to be in social or private rented compared with homeowners and to be aged 30-44. This is probably explained by the greater number of payment commitments and less predictable income and outgoings for this age group and social housing tenants.

Conclusions

The 2018 survey suggests that, in terms of access to financial services and financial wellbeing, there has been an improvement since 2010 in some cases back to the 2004 level. The situation on debt and savings has improved since 2010 but is the same or worse than in 2004. The expansion in bank account ownership and use is one important area in which there has been progress beyond 2004 and 2010. There are also some important exceptions to this, including an increased likelihood of incurring bank charges and the persistence in borrowing to cover living costs. The available evidence also suggests that the Financial Inclusion Partnership in Leeds has been effective, as these interventions are often well known among, and used by financially excluded households.

The findings highlight the extraordinary circumstances in which the 2010 respondents found themselves. The UK economy was emerging from a recession and growth had only resumed at the end of 2009. Unemployment rose from around 5% in 2008 to around 8% in 2010. In the aftermath of the financial crisis, household finances had been under sustained pressure through falling house prices, rising interest rates and increasing number of mortgage repossessions.

In 2004, evidence from the research undertaken was proof enough to commence the City's response to financial exclusion. This latest research shows that since the financial crisis in 2007/08, it is only now we are starting to get back to where we were in 2004. This means that, the reasons for which Leeds City Council and partners invested in financial inclusion interventions, on the back of the 2004 report on financial exclusion are still there. Although there has been some improvement since 2010, the 2018 deprived area respondents are less resilient and worse prepared for an external shock or crisis than in 2004, with significantly lower propensity to save and higher likelihood of being in debt. This is worrying given the impending roll out of Universal Credit, the potential fallout of Brexit and any future downturn. It also emphasises the importance of the Council and partners continued work to address financial exclusion and poverty in the city.

