

# Exclusion to Inclusion

Financial exclusion in two speed Leeds



## Seminar Report

Friday 18 February 2005

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## Kathy Kudelnizky, Director Leeds Initiative

Welcomed all those attending and stressed the importance of a broad partnership as crucially important in developing initiatives to deal with financial exclusion. A wide spectrum of organisations in the city and beyond was represented at the seminar: advice and business agencies, religious groups, the voluntary sector, credit unions, educational establishments.

Our evidence systems are becoming increasingly more sophisticated and, as a result, we know a lot about the issues facing disadvantage communities in Leeds. Studies such as this one, help us to know more so that we can respond in our collective strategy, policy and action.

One of the three aims of Vision for Leeds is narrowing the gap between the most disadvantaged people and communities and the rest of the city.

We cannot achieve this and the other aims of the Vision for Leeds – ‘Going up a league’ and ‘Developing Leeds’ role as the regional capital’ – separately or independently of each other. A thriving city means a city in which all residents can share in its success: we cannot succeed in going up a league without narrowing the gap.

## Cllr Andrew Carter Chair Leeds Economy Partnership (LEP)

Commended the research carried out by Community Finance Solutions at Salford University, which had two main objectives:

1. Research on the extent and scale of financial exclusion – focused on the most deprived wards in the city, where more and more people are becoming victims of financial exclusion
2. Study of alternative community-based credit/savings systems

The purpose of the research was not just about improving life for people without access to the normal range of financial services. It was also important to recognise the economic impact on the city – estimated at between £3.5 m and £10m per year.

Councillor Carter stressed the need:

- to take concrete decisions and bring financial exclusion to an end
- Leeds to be the first city not to have an inner city
- for Leeds to be a city where everyone be included
- for any barriers to be removed (City Council, national government or the private sector)
- for Leeds to become the first major city to overcome financial exclusion

All suggestions would be taken seriously by Leeds City Council and partner organisations, with the aim of minimising financial exclusion.

## Dr Karl Dayson Community Finance Solutions

Presented the findings of the research on financial exclusion which had been undertaken during 2004 and published in December 2004. The research provided a significant amount of primary data which illustrated quite starkly the problems faced by Leeds citizens in the most deprived parts of the city. There was considerable evidence that many residents were facing problems with unmanageable debt. They are increasingly dependant upon the sub-prime money lending market in an attempt to manage their household finances.

The research also looked at possible solutions and how better access to affordable credit may assist in alleviating these problems. Comparisons with other parts of the country were made and a number of alternative types of community financial services initiatives illustrated. The main conclusion was that, in Leeds, the establishment of a Community Banking Partnership was probably the best option to provide the type of affordable financial services needed by residents of the city's more deprived communities.

The presentation provided details of the data and recommendations contained in the full research report.

Copies of the Leeds study and an executive summary are available on the Leeds City Council web site at [www.leeds.gov.uk](http://www.leeds.gov.uk) (from the home page, search under 'F' in the Site Index alphabetic link for 'Financial exclusion in Leeds').

## John Battle MP (West Leeds)

### **Consumer Credit Act**

Commenced by stating that the poorest have been and are currently subsidising those who are better off. The prime problem is poverty – lack of money and lack of assets. The money borrowed is being used for the very basics and not luxuries, so borrowers are desperate.

An outline of the Consumer Credit Act 1974 was provided. This is now being updated. The Parliamentary Committee, which included representatives from Cattles and Provident, have put a lot of work into the Bill looking at the balance between the lenders and borrowers. It aims to clarify what the borrowers are 'getting themselves into'. Borrowers will have more power to go to the Ombudsman. Penalties will be introduced for those who do not follow lending regulations.

It is anticipated that the Bill will work its way through the House of Commons and the House of Lords in the next few weeks. It will regulate the market – but not abolish it. The possibility of putting a cap on interest rates was also touched on.

## Carol Cooper-Smith Government Office

Echoed the comments of John Battle MP and described some of the factors impacting on financial exclusion and inclusion:

- the market is changing radically
- easy access to credit
- wide ranging marketing is now very sophisticated

Some of the problems faced by people who are financially excluded include:

- barriers to employment – a bank account is needed for salaries/wages to be paid but many do not have even a basic bank account
- credit history – most of the financially excluded have none
- people often exclude themselves because they assume they will be turned down so do not even try
- some levels of mental illness caused through debt

The financially excluded need:

- access to banking
- access to affordable credit
- access to money advice and how to manage debt

Some banks are now targeting people with no bank accounts and this needs to be encouraged.

HM Treasury recently published a report Promoting Financial Inclusion and this is linked to a £120m fund which aims to provide funding for initiatives to address financial inclusion. The report is available on the Treasury website:

[www.hm-treasury.gov.uk/media/8F9/37/pbr04\\_profininc\\_complete\\_394.pdf](http://www.hm-treasury.gov.uk/media/8F9/37/pbr04_profininc_complete_394.pdf)

Government office is very keen to be involved in any initiatives progressed in Leeds as a result of the research and the outcome of the seminar.

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## Workshops

Five individual workshops, covering the three topic areas, took place exploring different aspects of financial exclusion. Each workshop was also asked to consider the following question:

Do you agree with the solution of a community banking partnership?

If the answer is no, why and what is the alternative?

Whilst there were differing views across and within the workshops, the main consensus view was that the principle of a community banking partnership (CBP) seemed the best solution to providing an organisational structure which could meet the needs of people in Leeds who are financially excluded.

There were a number of provisos and comments relating to the practical implementation of this proposal. These can be summarised as follows:

- Need to avoid merely creating another level of bureaucracy, which makes the overall operation less approachable and more cumbersome.
  - The detail of any established facility must be subject to broad discussion involving partners across Leeds including those with direct connection with the communities who will primarily be served by the community bank.
  - Leeds City Council would have an important role to play in facilitating this development.
  - A steering group or working party should be established in the short term to progress the research findings and coordinate future activity.
  - There are concerns about resources being directed into the organisation itself rather than into improvements on the ground.
  - The Credit Union would provide a significant resource within the overall organisation.
  - The overall organisation and structure must take account of the Leeds situation and ensure that an integrated approach which involves all relevant partner organisations operating in Leeds.
  - The community banking partnership must be seen as one strand of a larger strategy in dealing with financial exclusion and poverty generally.
  - Emphasis should be placed on re-investing savings back into the local community.
  - Any facilities provided through the community banking partnership must be made available within local communities, as far as possible, and not simply based in Leeds city centre.
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## Workshop A

### How do we reconcile the need for local provision of loans and financial services with the difficulty in resourcing local outlets?

Community collection points are the key issue with a real need to have premises and a presence on the high street. Many sub-prime lenders have local outlets because this is where their target audience is. One example of a scheme which attempts to address this is the Vancity project in Vancouver.

The key problem about obtaining premises is the revenue costs if the premises are obtained commercially. Although this could be subsidised in the early stages, ultimately, these costs would have to be met by the business. Therefore, the business plan would have to show that the finances of the business were sustainable and self financing in the medium to long term.

There should be better use made of outlets that are already in existence such as one-stop shops. Council-owned facilities and premises (even shopping centres) should be used as a social asset and have rents fixed accordingly. Resources should be pooled, which requires better co-ordination. Premises should be provided for the community.

There are differing timescales for the proposals; there is the long term and strategic which requires big businesses to be involved, encouraging their policies on Corporate Social Responsibility. There is a need to engage with businesses and ask whether they are in a position to provide direct help. If they are not, then they should be encouraged to lend their support instead.

### Summary of the key points for workshop A included:

- a high street presence is critical
- innovative ways of gaining premises are required, banks donating old branches, corporate social responsibility encouraged
- links to other regeneration activities in the communities are essential.
- greater co-ordination of existing partners who already have bases in communities
- schools need to be a focus

## Workshop B

**If as recommended by the report, a Community Banking Partnership is established how would this work in practice and which organisations would form the partnership? Is this the best vehicle for establishing co-ordinated services? How do we go about building effective partnerships including the mainstream financial organisations?**

The Leeds research recommended that the Leeds Credit Union should play a pivotal role. A model has been developed in Sheffield where the credit unions are weaker but the pattern is similar. The Sheffield model (Money Line Yorkshire Ltd) was discussed at length and it was thought that a similar model would work well in Leeds. It was noted that Leeds has a very well established (17 years) and strong credit union and that this would be a very good starting point and should be built upon.

There are advantages in using the Leeds Credit Union network and its staff. The establishment of a CBP would involve the creation of parallel bodies to do what a credit union cannot do alone for legal or business reasons. The emphasis should be on increasing financial literacy, giving financial advice, making business start-up money available and making grants and loans available to people who currently rely on predatory lending.

The credit union in Leeds is a separate legal entity in its own right and could work in partnership within a CBP type structure. It could also play a leading role in this, but the more risky loans could not be accommodated: currently there is a cap on interest rate charges of 12.7%, which would need to be relaxed and provision would be needed for the risk involved. The credit union is currently in the process of setting up a charitable trust – Financial Inclusion Leeds Limited (FILL) which could be utilised as the overall organisation.

Any structural arrangement must take account of the Leeds situation and ensure that an integrated approach is adopted in relation to the various partner organisations operating in Leeds.

The importance of local delivery was discussed. One-stop shops would be a good central point to place Credit Union and CBP facilities. They would provide easy access for members of the communities to get to instead of travelling into the city centre, which can cause problems especially for the elderly and parents with accompanying children.

A goal would be to create a variety of services provided by staff workers moving between the sponsoring members of the partnership to deliver a seamless service for the client.

### **Organisations that could form the partnership**

Early financial partnership structures need to have the right skills mix. They need to get the right mix of disciplines and expertise and get perspectives from the disadvantaged residents of Leeds, by using some as trustees. Leeds as a city is in a good position to take a lead. It has key private sector expertise, planning and structure. The following are possible partners (this is not intended as an exclusive list):

- Banks \*
- Chamber of Commerce
- Citizens Advice Bureaux
- Community Representatives
- Education Leeds
- Housing Arms Length Management Organisations
- Housing Associations
- Job Centre Plus
- Leeds City Council
- Leeds City Credit Union
- Leeds Schools
- Post Office



- Primary Care Trusts
- Small local businesses
- Sure Start
- Utility companies

*[\*The CU currently receive grant monies from Barclays, office space provided by HBoS, support from the Co-operative. Irish banking networks also have relevant experience.]*

Developing and managing a local initiative could form the basis of a pilot for the ODPM and others. This could attract finance and lead to new legislation. Capital and revenue funds are needed and this needs costing.

#### **Enterprise**

Small businesses need supporting, in addition to individuals. Enterprise loan funding is needed and the Chamber of Commerce is keen to consider initiatives to develop enterprise. It could also change the way we conceive and carry out regeneration.

Recognition needs to be given to black and minority ethnic groups and the entrepreneurial skills coming through communities needs to be supported. The flight of banks from disadvantaged communities has had a disproportionate impact on this group. Structures for this work need to be designed in consultation with BME businesses.

#### **Education**

Schools are identified as important centres for saving and development of financial literacy for children and adults. Education Leeds should be asked to consider this report and develop proposals to encourage saving and to link financial literacy into the curriculum.

#### **Health**

There are signs of health difficulties associated with stress from debt. Health and crime impacts on people in the grip of predatory lending, emphasising the need for action to be taken in this sphere. Further work should be done to detail the health-related costs of not addressing these problems. Large estates without businesses and enterprise can lead to a considerable social cost.

## Workshop C

### **How do we best deliver integrated and co-ordinated information, advice and education to those in need? How do we best promote financial literacy?**

It was widely agreed that information should be presented in formats that treat individuals as consumers and promote the advantages of financial literacy. Also, it was considered that traditional educational approaches should be avoided as they can be seen to be patronising.

Consideration was given to the methods that could be used to gain access to target groups such as parents, children, and young people. A number of ideas including the concept of 'extended schools' were discussed along with the necessity for the information to be available in a wide variety of locations including doctors surgeries, pubs, buses and Sure Start centres. In addition the use of key life changes as an opportunity to provide financial advice, for example: coming off benefits and starting a job, having a baby, being made redundant. It was agreed that these are the kinds of changes that start to cause financial difficulties for many people and appropriate information at these times could help to avoid problems.

### **How to achieve co-ordinated advice services?**

The Community Legal Services Partnership (CLSP) is an existing partnership of advice providers and funders with responsibility for an advice strategy for Leeds. Lack of resources for the CLSP has meant that it has been unable to deliver the strategy or to engage with funders effectively. A key problem is that not for profit service providers do not have the resources to sustain the CLSP, even though they have been the most committed to it. There is therefore a need to develop better links between Leeds Initiative and the CLSP, as financial inclusion relates to both the 'Narrowing the gap' and 'Going up a league' agendas within the Vision

for Leeds.

Above all the CLSP needs to be adequately resourced to undertake the needs and service analyses, develop strategic approaches and support a co-ordinated approach to securing more funding for advice services. Evidence has shown that where CLSPs have worked best, local authorities have put in resources to support them. This highlights the point that Leeds needs to try to learn from successful examples of co-ordinated advice services elsewhere in the country.

It should also be remembered that there are currently lots of people working in communities. There needs to be a programme in place to build up the information and knowledge of these people in terms of financial inclusion. Above all, funders need to take a more co-ordinated approach, as currently the Primary Care Trusts, Leeds City Council and Legal Services Commission are already funding many services but the funding mechanisms focus on organisations and not the need for services.

Overall it was agreed that advice services need to be developed in partnership with other agencies such as Education Leeds, Sure Start, Libraries, and Connexions, to target services to those who are most vulnerable. This partnership should consider wider issues of poverty, access to education, social exclusion, access to employment and the impact of poverty on health. It was pointed out that we need to be aware of dangers of developing yet another partnership or organisation that may not work. It was also recommended that in order to target those most in need, wards should be broken down into smaller more manageable neighbourhoods, through a series of mapping exercises.

### **Key conclusions for Workshop C**

- The Community Legal Services Partnership is the structure that should be co-ordinating advice service provision in Leeds.
  - Ensure the provision of adequate resource to enable the CLSP to fulfil its function and develop stronger links through Leeds Initiative
  - A range of approaches are needed in order to make financial literacy accessible to those in greatest need.
  - Put resources into preventative work with targeted groups, as well as appropriate information for people at crisis points or times of key life changes.
  - To work with Education Leeds and schools directly, to ensure financial literacy is accessible to those in the greatest need.
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