Exclusion to Inclusion

Financial exclusion in two speed Leeds

Executive Report

Research into Financial Exclusion in Leeds and a study of alternative community based credit and savings systems, undertaken by Community Finance Solutions at Salford University on behalf of Leeds City Council.

Foreword

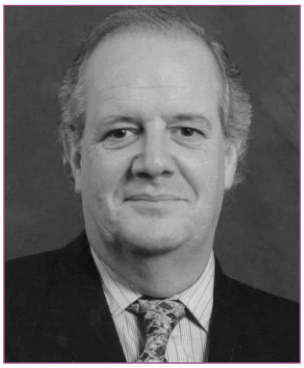
Leeds is a prosperous city. It is not only prosperous in its own right but acts as a generator for wealth, which goes well beyond its immediate boundaries. Leeds image as a prosperous city is well documented and commentators from around the country pay tribute to the success Leeds has enjoyed in recent decades.

However, increasingly over the years, Leeds has become recognised as a two-speed city. Much of the city is prosperous but significant pockets of poverty are to be found in many areas. Over 20% of electoral wards in Leeds are recognised as being amongst the most deprived in the whole of England. This manifests itself in many different ways: neighbourhoods facing poor housing and poverty, higher crime rates and generally run down environments. Services enjoyed by the vast majority of the citizens of Leeds are not taken for granted in these deprived communities at the heart of the city.

A city which only looks at the good headlines and fails to recognise its weaknesses, cannot be regarded as one which is inclusive and embodies the aspirations of all its citizens. There are many examples of work being undertaken by the Council, which illustrate the overall prosperity of the city of Leeds. The research on which this report is based concentrates on those parts of the city, which do not normally find themselves at the forefront of our promotional activities.

We believe that commissioning this research was a brave step. It has uncovered evidence of the extent of deprivation and the absence of access to financial services for many of our citizens. It has highlighted the impact of this on people's lives. It shows that there is considerable work to be done in providing the kinds of services to these communities which are taken for granted by most of the population.

In uncovering the significant difficulties which many of our communities face we are also exposing ourselves to the need to take action. The research embodied in this report must only be the beginning. The task ahead is to work with all our partners to try to ensure that the communities affected by financial exclusion are provided with services which meet their particular needs and, in so doing, assist in the process of narrowing the gap.



Councillor Andrew Carter
Chair, Leeds Economy Partnership
December 2004

Leeds Study

Financial Exclusion – Its Impact on Individuals, Disadvantaged Communities and the City Economy

A Report by Dr Karl Dayson of Community Finance Solutions at the University of Salford, with Jane Dawson of Community Consultants

"My mother died and I was left on my own to look after my sister. I had to give up my job and could not pay my overdraft. It has changed everything - I don't have any money and I just sit here trying to figure everything out. I did not even know I could get child benefit for my sister."

Leeds resident on the experience of being in debt.

December 2004

A copy of the full report of the Leeds study is available on the Leeds City Council web site at www.leeds.gov.uk (from the home page follow the "Site Index" alphabetic link)

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Executive Summary

This report examines the extent of financial exclusion in Leeds and explores ways in which this can be addressed.

Financial exclusion is the means by which individuals are unable and/or unwilling to access mainstream financial providers (i.e. high street banks and building societies). Consequently the financially excluded rely on range of informal solutions and 'sub-prime' providers. This has three negative effects:

1. Inability to access many services that now operate entirely beyond a cash based economy.
2. The banking sector is highly regulated with extensive consumer safeguards. Unfortunately similar protection is not always available when using subprime providers.
3. Most perniciously, the cost of credit varies enormously with APR rates from around 14% for a bank loan, to upwards of 177% for a small cash loan from a doorstep lender.

Annual cost to local economy

Although financial exclusion occurs to individuals and is therefore classified as a personal finance issue, its impact is felt across the wider economy. The research estimates that the use of doorstep lenders as opposed to more affordable credit is costing the Leeds economy between £3 to 9.5 million per annum. This money, which is only interest repayments, disproportionately affects the financially poorest households and communities. It reduces families' disposable income, which in turn reduces their children's life chances, and thus cuts the amount spent with local shops and businesses. In addition to undermining existing micro-entrepreneurs, the lost money reduces the capacity of potential entrepreneurs to start businesses. This latent entrepreneurship is highlighted in the report, with 20% of those surveyed in deprived communities interested in affordable loans for business start-ups.

What is the nature of financial exclusion in Leeds?

To assess the extent of financial exclusion in Leeds a survey of 410 households in the most disadvantaged parts of the city was undertaken. The results indicated that those with lower incomes were most likely to be financially excluded, in particular, lone parents, families with children, and workless households. Across the sample two in three (67%) had an income of below £200pw and 35% had an income of below £120 pw. Furthermore, 67% received one or more income replacement benefits. A total of 45% of households received housing benefit and 46% Council tax benefit. A quarter of 'working' households received Working Tax Credit.

The picture that emerged from the survey was one where most people were just managing to get by (53%) but 9% were getting into difficulties with managing their money. A total of 17% had some difficulty with paying their fuel bills. Therefore it

[1] APR – Annual Percentage Rate, is the financial indicator used to measure the average interest over the course of a year. It is based on the assumption that the borrower will maintain regular payments.

[2] HM Treasury Report, December 2004, "Promoting Financial Inclusion" reported high APR rates. Information below extract from the report:

- A typical loan from a home collected credit company for £200 might attract a charge of £94, which is repaid over 30 weeks at £10 a week - **309% APR**
- Pawnbrokers charge interest each month (7-12%) for the length of the loan. A loan of £200 over 4 months, at 7% interest a month would equate to a charge of £56 - **110% APR**
- CAB in Merseyside highlighted costs of a sale and buyback scheme. A £45 "loan" against the clients TV/video would require a payment of £56.25 within 28 days to recover the equipment - **1355% APR**

was unsurprising that 40% were worried about getting into debt, with over a third having fallen into debt in the past two years. The main reasons for falling behind with bills were that income was insufficient to cover outgoings, unemployment, or a short time working. However, errors in housing benefit calculations or billing accounted for some debts.

With regards to accessing mainstream financial products, 16% had tried to open a bank account and been refused, with 8% having this happen in the past two years. The main reason cited was a lack of the required identification. In addition only 32% had a cheque book and cheque guarantee card. Although 70% had a bank account this is well below the national average of 94%. Of those with an account 23% had a new basic bank account, which provides rudimentary banking services.

Other under-used financial products included insurance, with over half the sample (57%) saying that they did not have contents insurance, mainly because they could not afford it or that they did not have anything they considered being of value. In addition, almost half (48%, rising to 63% of social housing tenants) paid their fuel by 'payment card', key or coin meter. This means their charges are higher than paying by direct debit. Less than one in five (18%) respondents paid their fuel bills by direct debit.

The survey clearly indicates that financial exclusion is affecting a significant minority of the population within Leeds. Compounding this was only limited evidence of any strategic savings: only 13% were able to draw on savings in the case of an emergency. Instead a range of informal short-term savings methods were identified with keeping cash in an envelope or in a jam jar being the most popular. However, ease of access may result in these savings being accessed for immediate consumption and carry considerable security concerns.

On access to credit, 45% had some form of borrowing and 15% had a loan with doorstep lenders, rising to 38% of lone parents and 27% of couples with children.

Perhaps because of this there was widespread interest in different types of financial services: almost a third (29%) were interested in advice on money matters; 36% were interested in somewhere local where they could save small amounts of money; a similar proportion (34%) interested in affordable credit. 27% wanted a means to pay utility bills by direct debit rather than be beholden to their key meter.

Although financial exclusion is present in Leeds the results are broadly in line with similar surveys in other comparative cities. However, Leeds has organisational advantages, which if strategically utilised could have a significant impact on financial exclusion. Leeds has the largest 'live and work' credit union in England, one of the largest CAB offices outside of London, and a thriving private sector financial community. In addition a new loan fund for micro and small business entrepreneurs was due to be launched in late 2004 by the Partnership Investment Fund (PIF).

Nevertheless, gaps in provision still exist, in particular:

- loans for those currently using moneylenders but are too high risk for a credit union as currently structured
- advice for those with modest incomes but high debts, proportionate to their disposable income
- advice services for micro-entrepreneurs in disadvantaged communities
- informal but effective financial education
- The concentration of debt related services may exclude some ethnic minority/faith communities where there is an emphasis on avoiding debt.
- Links to other policy areas such as crime, health, and education, require further sophistication and the construction of more formal delivery partnerships

Recommendations

Overall there was a lack of strategic co-ordination among existing agencies on the most effective way to address financial exclusion. Any future partnership must also include organisations that are required to take a holistic policy driven approach. If a financial inclusion policy in the city is to be delivered, Leeds City Credit Union, and the other smaller credit unions, will have a vital role to play. If they are to take on this responsibility they will require specific funding to reach the most disadvantaged neighbourhoods. Consequently it would be preferable to target resources at developing products for the financially excluded rather than investing in a massive expansion in credit unions branches. This does not mean that branches are not required, but it should be accepted that they will require at least five years revenue support before each branch could begin to be self-sustaining.

Therefore it is recommended that a not-for-profit loan fund should be established. The management of this fund would either be undertaken by Leeds City Credit Union or an appropriate charity. The fund would make loans at a slighter higher interest rate than legal maximum permitted for credit unions. The loans would only be made in those cases where making a conventional credit union loan is deemed too risky. Once a client demonstrates the capacity to repay this first loan, they would be able to utilise their positive credit performance to gain access to a credit union loan. This encourages good financial behaviour by customers. It also ensures that the business of the credit union is not undermined by engaging in social policy issues.

In addition, closer relationships for the delivery of financial advice and education need to be fostered. It is recommended that a charity (either an existing entity or a newly created one) is used to develop and deliver a co-ordinated strategy for financial inclusion. This will incorporate greater funding for financial advice for the financially excluded to be delivered by both the Citizen's Advice Bureau and the credit unions. The charity will also promote greater financial knowledge throughout the city and develop partnerships to improve financial education. It would also be responsible for developing partnerships with mainstream financial providers, including referrals to/from the credit union/loan fund.

As the leading financial services centre outside of London, tackling financial exclusion would demonstrate how a partnership involving the financial sector delivers genuine benefits to all the residents of Leeds. This 'Community Banking Partnership' (CBP) is an initiative that could genuinely claim to improve the local economy and the lives of some of the city's most disadvantaged citizens.

The CBP approach is a customer focussed 'one stop shop' service, combining existing community finance provision by credit unions, money advice and financial literacy agencies, and mainstream financial institutions. New services would also be developed to deliver affordable banking to the poorest people in the community. Services would be delivered either through credit union shop front premises or through other outlets including credit union collection points in neighbourhood locations, advice agencies, outreach surgeries in the community, and via housing associations, bank and local post office partners. Establishing a CBP in Leeds would require a specially designed organisational structure, involving all the main partners. Further details of the CBP approach are contained in section 10.5 of the full report.

Summary of Key Findings

- A survey of a representative sample of 410 residents living in the seven most disadvantaged wards in Leeds was conducted in January 2004 to provide baseline information to inform the feasibility study looking at establishing a Community Development Finance Initiative.

- Incomes were generally low. 52% of households surveyed were 'workless' and 44% of non-pensioner households were workless

- Only 5% of respondents who gave a figure for their income said their household income was above £480 per week. Two in three of those giving a response to this question (67%) had an income of below £200pw and 35% had an income of below £120 pw

- Two in three respondents (67%) received one or more income replacement benefits. A total of 45% of households received housing benefit and 46% Council tax benefit. A quarter of 'working' households received Working Tax Credit.

- The picture that emerged from the survey was one where most people were just managing to get by (53%) but 9% were getting into difficulties with managing their money. A total of 17% had some difficulty paying their fuel bills.

- A total of 48% of the sample, rising to 63% of social housing tenants, paid their fuel by 'payment card', key or coin meter. This means their charges are higher than paying by direct debit. Less than one in five (18%) respondents paid their fuel bills by direct debit.

- There was worry about getting into debt: 16% of respondents were very worried and 24% were fairly worried.

- One in three respondents (34%) had got into debt or fallen behind with at least one payment in the past two years: 15% of those surveyed had outstanding debts at the time of the survey.

- The main reasons for falling behind with bills were that income was insufficient to cover outgoings, unemployment, or a short time working. However, errors in housing benefit calculations or billing accounted for some debts.

- Over half the sample (57%) said they did not have contents insurance, mainly because they could not afford it or that they did not have anything they considered being of value. (N.B. household insurance is generally expensive or unavailable in disadvantaged communities.)

- When an emergency financial need arose more than half of respondents (60%) said they would ask family or friends and 13% said they would draw on savings. However, 13% said they did not know where they would go, though mentioned the Social Fund, and 2% the Credit Union.

- Only 14% had been anywhere for advice about financial matters in the past couple of years.

- Throughout the survey, it was clear that lone parents faced particular problems with managing money and access to finance.

- Small numbers of respondents (4%) saved in schemes such as Christmas clubs organised by shops, 2% saved in other informal schemes, 10% said they asked relatives to look after money for them and 29% kept money in a jar or envelope.

- 30% of respondents said they had heard of Leeds City Credit Union. Awareness was highest in Seacroft and Richmond Hill. Awareness was lower among Asian and Black respondents than amongst White respondents. Awareness was higher than average amongst lone parents.

- 6% of respondents said they were members of the Credit Union rising to 9% of social housing tenants and 12% of lone parents.

- 15% of respondents with children at school said there was a School Savings Club at their child's school. 41% would like there to be such a club at school.

- 70% of respondents had a bank account and only 32% had a cheque book and cheque guarantee card. The main reason for not having a bank account was a perceived lack of need because they collected their benefits or pension from the post office in cash with nothing left over to save.

- 16% had tried to open a bank account and been refused, with 8% having this happen in the past two years. The main reason was a lack of the required identification.

- One in three respondents (36%) had heard of a basic bank account and 23% of those with a bank account said this was the type they had.

- 30% of respondents did not have a cheque guarantee card, a credit card or debit card so could only make purchases with cash. This ranged from 40% of private tenants to 34% of social housing tenants and 14% of owner-occupiers.

- Half the sample (52%) had some form of credit or borrowings at the time of the survey (39%). 15% had a mortgage and 45% had some credit or borrowings (excluding mortgages). In general people on lower incomes or those who rented their home were more likely to use expensive forms of credit such as licensed lenders or catalogues. Many people did not know what rate of interest they were paying. However, some respondents value the fact that some lenders called at the door and lent small amounts of money where small weekly repayments were made.

- Overall, 15% had a loan or credit with a licensed lender and made small weekly repayments, rising to 38% of lone parents and 27% of couples with children.

- The level of borrowings (excluding mortgages) ranged considerably from under £50 to more than £30,000. However, it is not easy to say the extent to which a particular level of credit is a 'problem' loan. A problem loan can be defined as one that the borrower cannot afford to repay and is not necessarily correlated to the size of the loan. Of those who had borrowings or loans, 22% were for less than £250 corresponding to 10% of the complete sample. 5% of the sample had borrowings of over £5000. On average owners occupiers had higher levels of borrowing than those in rented accommodation.

- 9% of respondents had asked for credit within the past couple of years and been refused.

- A total of 50% said they knew what the term APR (Annual Percentage Rate) meant 8% said they did not know what interest meant.

- There was a considerable level of interest in services, which could possibly make up a Community Finance Institution (CFI). Many of these services are available but are either not delivered universally or awareness needs to be raised:

  - advice on welfare benefits (32% very or fairly interested)
  - advice about money matters (29%)
  - advice about managing debts (22%)
  - somewhere local where you could take out credit or loan at a reasonable rate of interest (34%)

- somewhere local where you could save small amounts of money (36%)
- a local service where you could cash a cheque (30%)
- a service for paying bills by direct debit (27%) that is cheaper than paying by key meter
- a savings account for children (28%)
- more knowledge and information about financial matters in general (31%)
- loans for business start up (20%)

There was limited support for courses or sessions to help or support with managing money or money matters: 7% very interested and 15% fairly interested.

Supplementing the survey were a series of semi-structured interviews with stakeholders who had an interest financial inclusion matters.

- The interviews confirmed the findings of the survey. There was widespread indebtedness throughout the most disadvantaged locations within Leeds
- The concentration on tackling indebtedness results in services being aimed at those well served by financial institutions. Many of the poorest households have limited debts but these make up a greater proportion of their disposable income.
- The concentration of debt related services may exclude some ethnic minority/faith communities where there is an emphasis on avoiding debt.
- Services are not aimed at prevention and there were few examples of universal and accredited money management information
- Money advice services were understaffed and under-resourced. This resulted in uneven service provision.
- The lack of integrated policy and resources fostered a culture of parochialism whereby agencies are concerned with their own survival, rather than developing a co-ordinated approach to financial inclusion
- There is minimal financial education available for adults and this is under utilised partially because it is provided by formal educational establishments
- Leeds is well placed to tackle financial exclusion as it has the largest 'live and work' credit union in England, one of the largest CAB offices outside of London, and a thriving private sector financial community
- If the Leeds City Credit Union is to be more effective in addressing financial exclusion it will require additional support. Its current funding is insufficient to both run a successful financial institution and perform a social inclusion role.
- There was no economic justification for a massive expansion in credit union branches throughout Leeds unless the expansion is adequately funded for at least five years
- The local economy is being held back by financial exclusion, as potential entrepreneurs who are looking to borrow first need to resolve their personal financial difficulties. In addition, local money foregone in high interest repayments cannot be spent at local enterprises.
- It is estimated that sub-prime lenders are costing the Leeds economy between £3 to 9.5 million per annum
- A new loan fund for micro and small business entrepreneurs will be launched in the autumn of 2004 by the Partnership Investment Fund (PIF)
- There have been few conversations between the regional micro-finance loan (PIF) and the agencies committed to financial inclusion.
- Understanding of the impact of financial exclusion on other policy arrears, particularly the local economy, health, and education, required further sophistication.
- Stakeholders were committed to tackling financial exclusion and wanted to work in partnership but need enabling resources.
- However, there was a lack of co-ordination among agencies on the best way to address financial exclusion.
- From the users perspective there were many cultural, ethnicity, class, and faith based, barriers to accessing services.

- There was a acceptance by agencies that financial inclusion required a properly resourced long-term strategy connected to the work of neighbourhood renewal.
- The research identified the following key gaps:
  - loans for those currently using moneylenders but are too high risk for a credit unions as currently structured
  - advice for those with modest incomes but high debts, proportion to their disposable income
  - advice services for micro-entrepreneurs in disadvantaged communities
  - a need for informal but effective financial education
  - a need for a review of money laundering rules
- There were numerous approaches to financial inclusion being tested in the UK, but due to the success of Leeds City Credit Union, elements of most of these were unnecessary or inappropriate in Leeds. However, due to the extent of the problem doing nothing is not an option.
- The report rejected the concept of a freestanding CDFI in Leeds as this proposal would take no account of existing provision and fail to draw on these strengths.
- Local agencies need to be enhanced to enable a successful financial inclusion strategy. Initiatives could include greater, but targeted, finance for the CAB, greater co-operation on product development between the credit unions, and a promotional campaign aimed at recruiting credit union members.
- To assist the development of Leeds City Credit Union a dedicated freephone should be placed in all one-stop shops linking them to the credit union's call centre.
- A promotion of PIF is required, along with the development of a closer relationship between it and the credit unions within a Community Banking Partnership (CBP).
- Need for a financial inclusion strategy implemented by a partnership, and accompanying protocols between agencies, including better networking and signposting
- Leeds City Credit Union to be granted more resources to roll-out its programme of school savings banks
- The concept of a back office service has been rejected as a similar facility already exists at Leeds Credit Union
- It is recommended that a Community Banking Partnership (CBP) style approach is adopted
- The CBP is a coalition between stakeholders committed to addressing financial exclusion. Organisationally it will require two new entities: a community reinvestment trust loan fund, and a charity. Both these entities would work alongside existing credit unions.
- Operational control of the CBP could rest with Leeds City Credit Union, though this should not preclude the engagement of the other credit unions
- The community reinvestment trust should operate in a complementary and supplementary way to the credit union. Thus it should only make loans to clients that are considered too high a risk for the credit union or for activities deemed outside the credit union's legal parameters.
- The charity should ensure the delivery of the financial education and advice element of the CBP. It would also be responsible for developing partnerships with mainstream financial providers, such as referrals to/from the credit union/community reinvestment trust and the promotion of financial information to the general public.

Economic Impact of Financial Exclusion

Calculating the actual cost of high interest loans in Leeds is fraught with methodological challenges. National data on the extent of use of doorstep lending is extremely limited; invariably based on supposition rather than empirical evidence. Though it is estimated that there are 3 million customers of moneylenders (Rowlingson 1994) it is difficult to locate the statistical support for this assertion.

Consequently there is a reliance on extrapolating from the figures declared by the large moneylenders. For example, the largest doorstep lender in Britain is Provident plc, who claim to have 1.5 million customers. From this it is assumed that they control half the market and therefore there are 3 million customers of moneylenders. Leaving aside the obvious assumptions in this statement, what this does not tell us is the nature of the relationship between the lender and borrower. After all it is likely that many of the customers are dormant or use the service infrequently.

However, the accumulation of this circumstantial evidence does suggest that between 3-6% of the population will at some stage use a doorstep lender (these figures ignore those who use pawnbrokers and similar agencies). This relatively low proportion could in theory create a statistical anomaly, whereby in a normal general population survey of 1000 respondents the 3% margin of error could result in registering minimal use of moneylenders.

To partially address this issue the Leeds survey within this report examined the wards where financial exclusion was most likely to occur. Therefore, any attempt to extrapolate these figures across Leeds has to be treated with great caution.

Thanks to Murphy (2003) it is possible to assert with some confidence the average interest rate charged by Provident plc on their loans. Through a detailed examination of their financial performance Murphy argued that Provident charged an annual percentage rate (APR) of 185% on a typical loan. This figure was subsequently challenged by Provident who conceded that their typical rates were closer to 177% (BBC 2003, see also Provident's website). By comparison a loan from Leeds City Credit Union will be charged at 12.68%, while a community reinvestment trust, such as East Lancs Moneyline, which serve an identical market to the Provident charged a maximum of 29%.

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.

Confirmation of this is found in the 29% maximum charged by the Community Reinvestment Trusts (CRTs). These not-for-profit lenders charge higher rates to offset financial risks and establish a sustainable business model. It is impossible to compare these 'open market rates' with that charged by credit unions, as the interest rate of the latter is legally capped at 12.68%. Such a constrained interest rate means credit unions have had to rely on a business model based on volunteer delivery or utilise guarantee funds to serve higher risks markets. Neither these options are sustainable, so a small number of credit unions have begun to lobby for a relaxation in the interest rate cap.

Provident's interest rate should not be perceived as exceptional; rather they are probably one of the most cost effective doorstep lender 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). Some of the difference may be due to the number of loans to a client during a year. During our research in Leeds it was found that agents of moneylenders seek to make at least three loans to a customer per year. If this is correct it explains the apparent discrepancy between the size of the loan, particularly as Provident describe £100 loans as the 'most common', while Murphy uses a mean average.

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 Leeds.

Low-end estimate

This assumes that 3% of the population of Leeds use moneylenders and they each borrow £100 at an interest rate of 177%, paying back £5 per week (25 repayments of £5 and one of £3.55).

Based on a population of 715,402 in Leeds, 21,462 people use doorstep lenders, each borrowing £100 at 177% APR. This equates to £28.55 in annual interest per person, or **£612,740** in total.

In contrast if the same customers were to borrow £100 over 26 weeks from Leeds City Credit Union they would pay £4 per week for 25 weeks and a final payment of £3.55. The total interest paid would be £3.11 each, or £66,746.82.

However, if the client was unable to access a credit union loan but could use a community reinvestment trust loan at 29% they would repay the loan after 22 weeks (21 weeks at £5 pw and one at £0.51). The total interest paid would be £5.51 each, or £118,255.62

Consequently the use of doorstep lenders for a high risk borrower instead of a community reinvestment trust is costing the people of Leeds **£494,484.38**

Mid-range estimate

This assumes that 4.5% of population of Leeds use moneylenders and they each borrow £200 at an interest rate of 177% over 48 weeks

Based on a population of 715,402 in Leeds, 32,193 people use doorstep lenders, each borrowing £200 at 177% APR over 48 weeks (£6.48 per week). This equates to £111.52 in annual interest per person, or **£3,590,163.30** in total.

In contrast if the same customers were to borrow £200 over 48 weeks from Leeds City Credit Union (£4.41) they would pay £11.68 each in interest, or £376,014.24

However, if the client was unable to access a credit union loan but could use a community reinvestment trust loan at 29% they would repay £4.69 each week. The total interest paid would be £25.12 each, or £808,688.16

Consequently the use of doorstep lenders for a high risk borrower instead of a community reinvestment trust is costing the people of Leeds **£2,781,475.20**

Top-end estimate

This assumes that 6% of population of Leeds use moneylenders and they each borrow £486 over a year at an interest rate of 177%

Based on a population of 715,402 in Leeds, 35,770 people use doorstep lenders, each borrowing £486 at 177% APR over a year (£14.49 per week). This equates to £285.48 in annual interest per person, or **£12,253,943** in total.

In contrast if the same customers were to borrow £468 over a year from Leeds City Credit Union (£9.56 per week) they would pay £29.12 each in interest, or £1,249,946.80 in total

However, if the client was unable to access a credit union loan but could use a community reinvestment trust loan at 29% they would repay £10.22 per week. The total interest paid would be £63.44 each, or £2,723,098.50

Consequently the use of doorstep lenders for a high risk borrower instead of a community reinvestment trust is costing the people of Leeds **£9,530,845**

This money is lost to the local economy. Moreover, as seen in the survey, the majority of these clients will disproportionately be lone parents, workless households, and residents in disadvantaged areas. It is also interesting to note, by way of comparison, that the whole of the Neighbourhood Renewal Fund for Leeds in 2004/5 is £8.4m.

Comparison With Other Surveys

The survey in Leeds is the fourth of the 'city surveys' conducted by CFS and Community Consultants. The others were in London (Autumn/Winter 2001), Sandwell in the West Midlands (Summer 2002), and Manchester (Winter 2002). The comparative compositions of the samples are contained in the following table:

Table 1: City Surveys Comparative Samples

	London (505 respondents)	West Midlands (409)	Manchester (349)	Average of first 3 surveys	Leeds (410)
Women	62%	53%	52%	56%	52%
Men	38%	47%	48%	44%	48%
White	66%	66%	94%	74%	75%
Asian	7%	27%	4%	13%	14%
Afro-Caribbean & other Black	20%	4%	2%	10%	6%
Social housing tenant	83%	50%	46%	62%	56%
Private rental	1%	8%	23%	9%	17%
Workless household	54%	45%	57%	52%	52%
Income below £120pw	50%	24%	37%	N/a	35%
Income below £200pw	62%	54%	75%	63%	68%
Lone parent	25%	6%	17%	17%	16%

From this it is clear that ethnically the Leeds survey is nearer to London and Sandwell, while in terms of tenure it is closer to Manchester. In general the Leeds sample reflects the income levels and working patterns of the other surveys. When the other three surveys are aggregated the proximity to the Leeds sample is extremely pronounced. The remainder of this section combines the results of the previous three surveys and compares them with the Leeds findings.

Across the three surveys 74% of respondents had a bank account, very similar to the 70% within Leeds. However, the ability of respondents to use all of the banking services appears to be more limited: less than 59% (41% in Leeds) of respondents had a debit card. This figure fell to 20% (25% in Leeds)) for lone parents, 43% for housing association tenants and 35% for council tenants (34% of social housing tenants in Leeds). This means that across the three surveys over a quarter of lone parents (37% in Leeds) and over a third of council tenants with a bank account (28% in Leeds) cannot use the facilities to make outside purchases.

Tables 2 and 3 detail the main sources of credit used by respondents of all the surveys. The main sources of credit elsewhere were: credit cards (33%), store cards (17%), catalogues (14%) and moneylenders (8%). In Leeds twice as many of the sample was using moneylenders and borrowing from credit or store cards at 16% above the average of the other surveys. Overall the sample in Leeds was slightly more likely to use some form of borrowing than the samples from elsewhere.

Table 2: Access to financial Services by tenancy and ethnicity

Access to Financial Services O = Average of other three surveys L = Leeds survey	Total %		Owner-occupier %		Council tenant %		RSL tenant %		Private tenant %		White %		Non-White %	
	O	L	O	L	O	L	O	L	O	L	O	L	O	L
Current account	74	**70**	94	**86**	63	**66**	72	**N/a**	47	**60**	76	**66**	80	**85**
Current account with Debit or guarantee card	49	**32**	76	**53**	35	**25**	43	**N/a**	23	**26**	47	**32**	62	**34**
Credit card	33	**25**	54	**48**	22	**17**	31	**N/a**	8	**17**	36	**23**	43	**36**
Store card	17	**9**	28	**20**	11	**4**	16	**N/a**	--	**9**	20	**9**	32	**11**
Loans from finance co or money lender	8	**15**	4	**4**	8	**20**	12	**N/a**	5	**13**	10	**19**	5	**4**
Catalogue purchase loans	14	**13**	7	**13**	17	**16**	19	**N/a**	8	**6**	19	**16**	10	**5**
Some form of borrowing	37	**45**	37	**38**	38	**50**	48	**N/a**	23	**41**	45	**53**	37	**23**

Source: CFS Surveys 1999-2001

When broken down into types of people the higher level of borrowing in Leeds was concentrated among tenants and the White population. Table 3 also shows greater use of credit among those who are workless, households with disabled members, and lone parents. Within Leeds the latter were 14% more likely to borrow than lone parents elsewhere.

Table 3: Access to financial services by selected household types

Access to Financial Services O = Average of other three surveys L = Leeds survey	Total %		Lone parents %		Household with children %		Household with disabled member%		Workless households %	
	O	L	O	L	O	L	O	L	O	L
Current account	74	**70**	56	**63**	72	**74**	75	**64**	60	**55**
Debit or guarantee card	49	**41**	20	**25**	50	**41**	46	**36**	32	**27**
Credit card	33	**25**	17	**15**	37	**29**	31	**39**	19	**13**
Store card	17	**9**	11	**3**	21	**9**	14	**9**	11	**5**
Loans from finance co or money lender	8	**15**	18	**38**	11	**27**	7	**16**	8	**19**
Catalogue purchase loans	14	**13**	28	**28**	19	**14**	13	**16**	15	**15**
Some form of borrowing	37	**45**	55	**69**	50	**49**	40	**47**	33	**40**

Source: CFS Surveys 2001-2004

The findings in the surveys indicate a wealth cleavage in the types of credit accessed, with owner occupiers more likely to use credit and store cards and those in rental accommodation were twice as likely as owner-occupiers to use catalogues. However, in Leeds owner-occupiers were as likely to use catalogues as respondents in other forms of tenure.

The most significant difference was regarding the usage of moneylenders. People in rental accommodation were also more likely than others to have loans from a finance company where small weekly repayments are made. In Leeds, social housing tenants were five times as likely as owner-occupiers to use moneylenders. As with the other surveys, use of moneylenders is concentrated among the most disadvantaged White respondents. In total 38% of lone parents in the Leeds survey used a moneylender compared to 18% elsewhere. Usage was also higher among all households with children, those with disabled members, and workless households.

The Leeds survey reflected the results of the other surveys regarding respondents' main contact point when they are seeking credit. Usually this was most often through a bank or building society (44% in Manchester, 56% in West Midlands, 50% in London, and 44% in Leeds) or through a shop (15% average and 17% in Leeds) or catalogue (25% and 18% in Leeds). However whereas 20% of respondents had been referred by a family member or friend in the other surveys this rose to 34% in Leeds. This probably indicates the tight-knit community in Leeds, especially when contrasted to the London sample where there was a significant proportion of recent migrants to the area of study.

Across all the surveys, including Leeds, convenience appears to be the most significant factor in choosing the source of credit, while interest rates appear to be of less important. Many borrowers were unaware of the rate of interest they were paying, and the interest rates quoted by respondents suggest that some people who claimed to know the rate had got it wrong.

In all four surveys respondents were asked about accessing services that may enhance their financial situation or capacity. As Table 4 shows with notable exceptions there was remarkable convergence across the surveys.

Table 4: Interest in new financial inclusion services

	London %	West Midlands %	Manchester %	**Leeds %**
Interest in more information about financial matters	40	32	27	**31**
Interest in somewhere for local loans	51	28	33	**34**
Interest in local savings	49	30	36	**36**
Interest in loans for self-employment	24	11	5	**20**
Interested in courses about managing money	N/a	N/a	20	**22**

In general a third of respondents wanted somewhere local to save and borrow. This presents an opportunity in Leeds because awareness of credit unions was much higher than elsewhere. This was almost certainly due to the profile of Leeds City Credit Union.

There was also considerable interest in general financial information and a fifth of respondents in Leeds and Manchester expressed interest in money management courses. Finally 20% in Leeds wanted to know about loans for self-employment. Potentially this is an economic opportunity for Leeds as most growth and employment within the UK economy is through the activities of small and medium-sized enterprises. Even if Leeds City Council could harness a fifth of those expressing an interest it would provide a major spur to the economic development of the most disadvantaged communities in the city. It is apparent that Leeds does not lack entrepreneurs, just the financial capital, and knowledge to assist their development.

Although the section outlines the main differences between the financially excluded in Leeds and the other cities, it should be acknowledged that the similarities are much more significant. Like most other large conurbations, financial exclusion is occurring and it is concentrated among the poorest households within the city. In particular the use of moneylenders is prevalent among lone parents and other households with children. A number of agencies have emerged with specific remits to address financially exclusion, but it is apparent that these have yet to have significant impact on the city, to the extent that Leeds is equally financially excluded as other cities.

Recommendations

Before listing the recommendations it is necessary to offer a working definition of financial exclusion that partners could employ:

Financial exclusion is the means by which an individual or an enterprise cannot access mainstream and/or affordable financial services. This may be due to a perceived or actual absence of accessible provision, a sense of the unknown and/or cultural difference, a lack of financial knowledge and/or access to financial information, or the incapacity to make informed financial decisions. Financial exclusion is correlated to lower than necessary disposable incomes and therefore, contributing to and being a result of poverty and related characteristics of social exclusion.

The main recommendation is that Leeds should develop a Community Banking Partnership initiative as outlined in section 10.5 of the full report. This involves better co-ordination of services and the established of a community reinvestment trust style loan fund, aimed at the most disadvantaged communities. Loans should be linked to addressing poverty and enhancing financial knowledge. This educational aspect should be delivered through a related charity. The loan fund should have a steering group drawn from all agencies but its management should be through Leeds City Credit Cnion.

This solution adopts a position that places the citizen/user at the apex, with providers working together to supply an integrated and accessible service. The fulfilment of this core objective will require both the establishment of new services, and the enhancement of existing service providers and the delivery of those services. This is reflected in the following recommendations:

Integration and co-ordination of services

1. Establish a Financial Inclusion Forum that will share good practice, draft a Leeds Financial Inclusion Strategy, and subsequently develop working protocols to ensure agencies are aware of their role and responsibilities within the strategy.
2. To develop the infrastructure for the Community Banking Partnership, a steering group needs to be established which will be tasked with registering a community reinvestment trust and arranging its contractual relationships with Leeds City Credit Union, and simultaneously develop a financial inclusion services charity. Rather than establishing a new charity it may be possible to utilise that recently established by Leeds City Credit Union, though negotiations on this matter will need to be undertaken.
3. Financial inclusion should be readily available through a single telephone help line, a website, and in person through the one-stop shops.
4. Encourage and support closer co-operation between credit unions and advice services.
5. Better networking and signposting between agencies committed to financial inclusion.
6. Link issues of financial inclusion and the subsequent policy and implementation to existing Neighbourhood Renewal Strategies.
7. To further engage the Primary Care Trusts across the whole of the city by running a seminar demonstrating the connections between health and financial inclusion.
8. Develop a new funding arrangement for those involved in financial inclusion services that places emphasis on partnership bids as opposed to proposals by individual agencies.
9. Introduce a policy to undertake a financial inclusion proofing exercise for all new local authority initiatives. This would operate similarly to environmental proofing, but would be designed to ensure that new policies did not inadvertently increase financial exclusion.

10. Engage and involve the post office and the mainstream financial providers in the delivery of services aimed at the financial included. This should include developing specific services and working with other agencies with regards to referrals.

Information, advice and education

11. Improve the quality of financial information available to Leeds residents by developing a financial capability strategy. This should initially focus on raising awareness of borrowers rights under the updated Consumer Credit Act.
12. Develop an information pack for all new borrowers and work with the Leeds Financial Services Initiative to ensure it is distributed by all their members.
13. Explore with Education Leeds and the utility companies the feasibility of introducing a Birmingham Factor Four style money advice (in which energy efficiency and reducing fuel bills is used as a mechanism to increase financial education) for residents of Leeds
14. Establish a working group comprising of representatives from Education Leeds, Leeds City Council and financial institutions. Collectively this group would look at an outline design for a financial literacy package for delivery in schools and draw up a project contract and design template to be fulfilled by an external publishing house.
15. The training of all staff in one-stop shops in the provision of rudimentary financial and budgetary advice. This knowledge can then be imparted to users of the shops.
16. Train health visitors to be able to provide rudimentary budgetary and money advice to their clients.
17. The advice services need to be drawn together and services need to be open public friendly hours. Funding needs to focus on preventative action and services that are relevant for black and minority ethnic communities. Also any additional funding should be aimed at helping those considered financial excluded. For example debt workers could concentrate on those using sub-prime lenders, even if the client's total indebtedness is numerically less than many other users. The local Community Legal Services Partnership (CLSP) is the appropriate forum to address these issues and advice service funders and providers need to engage with the CLSP to ensure that a more strategic approach is taken.
18. Improving financial literacy should be long-term objective and the private sector should be encouraged to help fund this. It can be argued this benefits the Leeds financial services community as a more numerate population helps fill an employment skill gap
19. Install the Cash Crescent educational CD ROM in all one-stop shops. The Cash Crescent software is written by the Basic Skills Agency and is designed for those needing level 1 and 2 financial literacy training. It is a self-test mechanism, enabling the user to develop their skills without feeling embarrassed.
20. Develop a session for asylum seekers explaining how the British personal financial market operates. This could be linked to training via the Cash Crescent educational software.

Promoting credit unions

21. Leeds City Credit Union should be adequately funded to support a network of School Savings Clubs across Leeds. Initially this should focus on primary schools, as FSA rules mean it is more complex to operate a school savings club for high school children.
22. Run a campaign encouraging the citizens of Leeds, especially those in disadvantaged communities, to join their local credit union.
23. Promote greater co-operation between Leeds' credit unions particularly on promotion and the development of new products.
24. Without significant funding being provided there is no economic justification for opening more credit union branches. Instead, investment in the credit union should focus on improving their current infrastructure and capacity to support disadvantaged communities through peripatetic staff. This can be partially done by the provision of a dedicated freephone connection in all one-stops shops linked to the Leeds City Credit Union call centre.

Expanding the local economy through financial inclusion

25. Work with Business Link to introduce training for their advisors on servicing micro-entrepreneurs. This training needs to focus on the overlap between personal and business finance that many micro-entrepreneurs experience. The advisors will also require advice on breaking down barriers between formal institutions and micro-entrepreneurs.
26. Work with the Partnership Investment Fund (PIF) to promote its service and help it to forge closer links with the credit unions
27. Regularly assess the impact of high interest rate borrowing on the Leeds economy

Glossary of Terms

Association of British Credit Unions Limited

The largest trade body for credit unions

Community Finance Initiatives (CFIs)

This is a general umbrella term to describe community finance schemes ranging from a financial institution such as a Community Reinvestment Trust to a finance centre offering financial literacy training or money and debt advice etc. They are run for community benefit and are not for profit organisations.

Community Development Finance Association (CDFA)

The trade association for Community Development Finance Institutions (CDFIs).

Community Development Finance Institutions (CDFIs)

CDFIs are sustainable, independent financial institutions that provide capital and support to enable individuals or organisations to develop and create wealth in disadvantaged communities or under-served markets. The term is used to describe financial service providers where their mission specifically requires them to achieve social objectives. CDFIs principally focus on financial services for businesses or social economy organisations rather than for personal use. The primary activity of a CDFI is lending and investing in community revitalisation.

Community Reinvestment Trusts (CRTs)

These are not for profit organisations that provide loans and other financial services to men and women, small businesses and community enterprises in communities in the UK in which there is a lack of investment. These are independent community organisations aiming for long term sustainability. Some are predominantly for business lending whilst others offer personal and business lending on the premise that the self-employed rarely distinguish between the two (e.g. Portsmouth Area Regeneration Trust (PART) and Salford Money Line (SML). This is one form of CDFI.

Credit Unions

These are co-operative savings and loan institutions, where members with a common bond save in the form of shares, which are then re-lent to members. They are usually focused on personal rather than business lending.

Guarantee Fund Schemes/Residents Savings and Loans Scheme

This links savings and borrowings, providing access to low interest loans. An initial lump sum deposit is made by a housing association with a financial institution (usually a building society). This fund is used to enhance the interest on residents' individual savings and acts as a form of collateral against which residents can borrow.

Mainstream Financial Institutions

This term refers to banks and building societies registered 'deposit takers' with the Bank of England.

Addendum: Assessing the impact on Leeds of the Chancellor's pre-budget report

Accompanying the Treasury's pre-budget report was a supplementary report entitled *Promoting Financial Inclusion*. This work was published too late to influence the research in Leeds. However, a short assessment of how it relates to the topics discussed earlier is provided in this addendum.

The main observation is that the report should be welcomed as it details a co-ordinated strategic policy driven approach to financial exclusion. Moreover, this new strategy reinforces both the justification for commissioning research in Leeds and most of its recommendations.

Specifically, the announcement of a £120million fund to address financial inclusion is to be welcomed, as it will provide sufficient incentive for new partnerships to emerge. When the Leeds research begun there was no expectation of immediate central government finance so support secured from this source is excellent news. Unfortunately no details on how the fund is to be distributed are available, and only once this is known can the impact on Leeds begin to be assessed.

Initially it was thought that the fund would be geographically targeted, based on the map published on page 15 of the report. However, civil servants have subsequent clarified the matter and offered reassurance that resources will go to where a strong case can be made. Clearly the decision to conduct a household survey measuring the extent of financial exclusion means Leeds is able to fulfil this requirement.

Although the Social Fund has not received much attention in this report, interviewees did argue that its reform was overdue. Consequently the decision to ease some of the repayment schedules will increase the disposable income of some people within Leeds.

During the research Leeds City Credit Union detailed a number of areas where changes in national policy would help them serve the financial excluded. As a result the proposal for the direct payment of third-party debts from benefits, and the possibility of raising the interest rate cap on credit unions are to be welcomed. Without any change in the interest rate cap it is difficult to envisage how any credit union could remain sustainable, while committing itself to serve financially excluded communities.

Equally pleased were Leeds CAB with the announcement of a massive expansion in the number of face-to-face money advice sessions, and the two year exemption of advisors from the financial promotions under the Financial Services and Marketing Act. Both these changes should result in the money and debt advice services in Leeds being seen by more people and clients receiving more direct and relevant information. In addition, the announcement of a fund to support advice work undertaken with those who do not normally access conventional advice agencies directly reflects findings in this report. It is good that this work, which is currently undertaken by a range of agencies, in particular credit unions, receives recognition and support for its valuable and informal transfer of information.

Overall the tone of the pre-budget report seems to suggest that the co-ordinated, holistic approach recommended in this report reflects the desire of the government. This implies that the research undertaken in Leeds and the on-going partnership building will be necessary elsewhere; placing Leeds in an excellent position to bid for funds.

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