
FINANCIAL INCLUSION STRATEGY

Responsible Cabinet Member – Councillor John Williams, Leader

Responsible Director – Richard Alty, Assistant Chief Executive

SUMMARY REPORT

Purpose of the Report

1. To agree support for the delivery of a Financial Inclusion Strategy for Darlington that improves access to financial services for those on a low income.
2. To agree a funding allocation of £50,000 to support increased access to affordable credit.

Summary

3. The Vision of the Financial Inclusion Strategy is:

‘To make a significant positive impact upon the lives of those on low incomes, those in debt or likely to fall into debt, those struggling to manage household budgets and those without access to appropriate financial services and products.’

4. Key to the Financial Inclusion Strategy is an objective to reduce the risks of Darlington residents using loan sharks because they do not have access to affordable credit.

Recommendation

5. It is recommended that :-
 - (a) Cabinet approve the Financial Inclusion Strategy (attached at **Appendix 1**) and the action plan to implement it.
 - (b) Cabinet agree to allocate £50,000 to support Darlington Credit Union to increase the provision of affordable credit.

Reasons

6. The recommendations are supported by the following reasons :-
 - (a) The residents of Darlington have been hit hard by the financial downturn and this is affecting our ability to deliver against narrowing the gap targets. The adoption and implementation of this strategy will have a direct positive impact.

- (b) The release of the funding allocation will enable the Credit Union to offer affordable credit to the whole borough and to be able to reach a position of self sustainability.

Richard Alty
Assistant Chief Executive

Background Papers

Financial Inclusion – The Way Forward – HM Treasury March 2007

How Many, How Much? Single homelessness and the Question of Numbers and Cost’ – Crisis 2003

John Bosson: Extension 2016

S17 Crime and Disorder	The implementation of this pilot work will reduce the risk of illegal money lending activity and also reduce the risk of criminal activity to pay off large interest payments on high interest loans.
Health and Well Being	Financial exclusion can impact adversely on the health and well-being of individuals and families. It can also impact on the ability of individuals to maintain housing tenancies.
Sustainability	Increasing the financial knowledge and competencies of individuals can increase the overall prosperity of Darlington, making it commercially sustainable.
Diversity	The financial inclusion strategy aims to reduce the social exclusion that people face and whilst it targets interventions to particular life-stages it is not intended to be exclusive.
Wards Affected	All wards within Darlington will be positively impacted upon by this strategy.
Groups Affected	Financial exclusion is an issue that affects all age groups either directly or indirectly. Children and young people need to learn good financial life skills, parents and other adults need to manage household budgets and many pensioners need to resolve problems of sometimes being asset rich but cash poor.
Budget and Policy Framework	The report does not alter the budget or policy framework.
Key Decision	This is a key decision as it has a significant effect on several wards.
Urgent Decision	An urgent decision is not required.
One Darlington: Perfectly Placed	This strategy will impact positively on the delivery of the 'One Darlington' priority.
Efficiency	This strategy will directly promote financial inclusion and lead to more efficient use of the resources available to the borough.

MAIN REPORT

National Context

- 7 In the UK 58% of people living in households with an income of under £10,000 have no savings and investments and up to one third of households with an annual income of under £15,000 are in arrears with consumer credit or household bills.
- 8 HM Treasury Strategy entitled 'Financial Inclusion – The Way Forward' was published in March 2007. One of the goals in this strategy is to ensure that everyone has access to affordable credit, savings accounts and simple insurance products. A key provider of affordable credit is the credit unions who are mutual financial organisations offering savings and loan facilities to their members. Credit unions are legally obliged to define a group of people who share a 'common bond' from whom they can recruit their membership and to whom they can provide services.
- 9 The 'Let's Talk Money' campaign funded by the Treasury <http://www.nowletstalkmoney.com/gb/en/creditunions.html> stresses the important role of credit unions in providing a route to affordable credit.

Regional Context

- 10 In the North East there are two Financial Inclusion Champions funded by Central Government and their role is to add value to local partnership working to address financial exclusion. They have been actively involved in the development of 'Money Matters: A Financial Inclusion Strategy for Darlington'.
- 11 The Department for Business Enterprise and Regulatory Reform have Illegal Money Lending Teams operating throughout the North East to remove loan sharks from our communities and to help victims to climb out of the spiral of debt.

Local Context

- 12 Research undertaken by Experian on behalf of the Department for Work and Pensions has found that Darlington has 15 out of its 24 wards where there is clear evidence of a gap between the demand for access to third sector affordable credit and its availability.
- 13 Locally the Financial Inclusion Strategy (copy attached at **Appendix 1**) has been developed in partnership with the public, private and third sectors. The strategy and associated action plan will be monitored by the Darlington Financial Inclusion Forum as part of the Prosperous Darlington Theme Group of the Darlington Partnership. With the exception of the funding earmarked in this report to create greater access to affordable credit all other proposals in the strategy action plan are cost-neutral. This is based either on the use of existing mainstream resources, the draw down of external funding already secured, or by making use of existing programmes offered by partners which are free at the point of use.

Financial Inclusion Strategy (FIS)

- 14 This strategy has been developed in partnership across Darlington led by Darlington Borough Council. The aim of the strategy is to:
 - a) Raise financial knowledge and competencies of all individuals and families;

- b) Increase the number of vulnerable individuals accessing affordable and manageable financial services;
 - c) Reduce the numbers falling into and currently in debt;
 - d) Improve service provision to individuals and families, particularly those who are most vulnerable.
- 15 Financial exclusion reinforces social exclusion and affects not only the individuals but also the communities in which they live. Conversely, financial inclusion significantly contributes to health and well being of individuals and enables them to escape the spiral of deprivation.
- 16 Vulnerable individuals can find it difficult to obtain personal credit. This can be because they are blacklisted; because of the area where they live or because of past history and it means that forms of personal credit available to them might only be unregulated forms of credit.
- 17 The proposals within the strategy include clear governance arrangements for partnership working on these issues, provision of training, communication activity to produce easily accessible materials and face to face support to individuals and families.
- 18 Key to the action plan are a set of practical measures including:
- a. Developing the new Credit Union for the whole of the borough;
 - b. Creating greater access to affordable credit and savings products;
 - c. Stimulating take-up of home contents insurance;
 - d. Tackling fuel poverty and promoting energy efficiency;
 - e. Increasing take-up of welfare benefits.

Delivery Arrangements

- 19 There are eight key objectives in the strategy:
- 1) Raise financial literacy (knowledge, awareness and understanding);
 - 2) Increase access to debt and welfare rights advice;
 - 3) Increase the take up of welfare benefits;
 - 4) Enable residents and local employees to make informed decisions about financial products and services available to them;
 - 5) Provide access to affordable credit;
 - 6) Promote household contents insurance;
 - 7) Minimise fuel poverty and highlight the benefits of energy efficiency measures;
 - 8) Improve partnership working to strengthen our collective responses.
- 20 Many of the practical steps set out in the action plan are being delivered through existing work in partnership with organisations such as Age Concern, Citizen's Advice Bureau, Darlington Association on Disability, Darlington Credit Union, Darlington Primary Care Trust, Schools, the Financial Services Authority and Department of Work and Pensions.

- 21 Objectives 1-4 are being delivered through mainstream funding to adult social care and welfare rights, strategic grant funding to the third sector, Amplifying Voices North East Empowerment Partnership funds and through Big Lottery funding to support the Community Advice Partnership (CAP) formerly known as Legal Advice Network Darlington (LAND). In addition work is linking to the Extended Schools Network and the Healthy Schools initiative.
- 22 Objective 6 is being delivered through mainstream funding to Darlington Borough Council's Housing Team who are encouraging take-up of the low-cost contents insurance scheme with Royal Sun Alliance. This is also supported by joint promotion of Age Concerns insurance products for those over the age of 50 years.
- 23 Objective 7 is being delivered through the Health and Energy Affordability Team (HEAT) a partnership project based with Age Concern, working with Darlington Borough Council, Darlington Primary Care Trust, and Darlington Citizens Advice Bureau. HEAT provides advice on energy efficiency, affordability and emergency interventions for clients with fuel arrears and disconnection issues.
- 24 Objective 8 is delivered through the Financial Inclusion Forum and partnership works to performance manage the Financial Inclusion Action Plan.
- 25 Objective 5 aims to provide access to affordable credit by promoting the Darlington Credit Union and communicating sources of more affordable credit other than high interest lenders. A dedicated credit union co-ordinator has been appointed through the Office of the Third Sector Targeted Support Fund. Unfortunately this is short term funding that is due to cease in April 2010.

Objective 5 and Darlington Credit Union

- 26 Objective 5 is to provide access to affordable credit which will be achieved by:
 - a. Promoting the services of the Darlington Credit Union;
 - b. Communicating sources of more affordable credit other than high interest lenders.
- 27 With Council officer support, Darlington Credit Union was created in June 2009 by amalgamating the operations of the four Darlington Credit Unions:- Firthmoor, Eastbourne and Lascelles; Cockerton Churches; South Darlington and North Darlington.
- 28 Credit unions are financial co-operatives, mutual, self-help, not-for-profit organisations that offer savings and loan facilities to their members. Members' funds provide a pool of funds to make affordable loans to other members. Credit unions are legally obliged to define a group of people who share a 'common bond' from whom they can recruit their membership and to whom they can provide services. Darlington Credit Union's common bond is known as a "work or live" common bond, which means that anyone who either works or lives in Darlington is eligible to become a member. Credit Unions are regulated by the Financial Services Authority (FSA), with savers funds guaranteed up to £50,000 through the Financial Services Compensation Scheme.
- 29 Darlington Credit Union is the only credit union legally able to offer credit union services in Darlington.

30 Affordable credit is a crucial part of the Darlington Financial Inclusion Strategy. The table below is an extract which sets out the difference between the re-payment rates of the range of lenders. It must be stressed that financially excluded people are more likely to approach either illegal money lenders or lenders with high administration fees and interest rates than a credit union:

	Amount of Loan	Typical APR	Term of Loan in weeks	Weekly repayment amount	Total repayable	Total Interest Payable
Illegal Lender (Loan Shark)	£300.00	1,000%	52	£57.50	£2,9990.00	£2,690.00
High Street (Shop-a-Cheque)	£300	254.5%	50	£10.51	£525.50	£252.50
Doorstep Lender (Provident)	£300	272.5%	52	£10.50	£546.00	£246.00
DWP Growth Fund (Instant Loans)	£300	26.8%	52	£6.53	£339.56	£39.56
Credit Union (Loyalty Loans)	£300	12.6%	52	£6.15	£319.80	£19.80

(Data correct as of 15.09.09)

31 There are a number of actions that are key to delivery of this objective including:

- a) Awareness raising and development of information packs;
- b) Work with Darlington Council's Housing Team to support delivery of credit union services to social housing tenants;
- c) Development of a payroll deduction scheme and in-work volunteering within the public sector;
- d) Work with funders to secure funding to enable Darlington Credit Union to retain employed staff;
- e) Work with DWP to promote financial inclusion and link to national strategies and initiatives.

32 It is important for credit unions to have a clear management structure in place to ensure compliance with the FSA regulations for the operation of the credit union. It is clear that whilst in the long term the credit union can be self-sustaining it will take time to build up sufficient membership for it to become viable. Regulations permit the credit union to charge interest of up to 2% a month on the reducing balance (an APR of 26.8%). The rate charge in Darlington is only 1% a month (APR 12.68%).

33 Research undertaken by Liverpool John Moores University shows that it can cost from £50,000 to £100,000 to set up a credit union with premises and staff for the first three years, after which time it should be self-sustaining. Funds can come from a variety of sources. For example, the involvement of an employer can be of mutual benefit by improving the health and well-being of staff.

- 34 The Council faces tight financial constraints currently, however, it is important to realise that on some occasions it is important to invest in order to save. As stated previously the costs of individuals using high interest loans can be high and measured not simply in financial terms but in terms of its broader impact on health and well-being. This can include loss of homes, family breakdown and physical and mental ill-health. Many of the costs to address these services will fall on the council through housing, adult social care and children's service. In 2003 Crisis looked in detail at the financial costs involved in a failed tenancy. Their report 'How Many, How Much? Single homelessness and the Question of Numbers' showed that the local authority lost between £3,300 and £28,500 due to loss of rental income and action to recover arrears. If costs to other public bodies such as the police and NHS are included then the costs rise to between £54,500 and £83,000 for the most complex cases.
- 35 In order to support delivery of Objective 5 of the Financial Inclusion Strategy, two years' funding at £25,000 p.a. will be required in 2010/11 and 2011/12, during which time it is anticipated the Credit Union will reach a position of self-sustainability through the implementation of its business plan.
- 36 The current MTFP makes provision of this sum for delivery of the Financial Inclusion Strategy.

Conclusion

- 37 Cabinet is asked to support the delivery of the Financial Inclusion Strategy as a mechanism for reducing financial exclusion and the consequences of this for individuals, families and communities.
- 38 Cabinet is asked to release £50,000 of funding (2010: £25,000, 2011: £25,000) to support the delivery of Objective 5 of the strategy through entering into a contract with Darlington Credit Union.