MANCHESTER CITY COUNCIL
REPORT FOR INFORMATION

Committee: Citizenship and Inclusion Overview and Scrutiny Committee

Date: 12th November 2008

Subject: **Financial Inclusion**

Report of: Director of Adult Social Care

Purpose of Report: To investigate the incidence of financial exclusion and the likely impact of rising inflation particularly in relation to food costs and fuel bills

Recommendations:
N/A

Contacts

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Wards Affected: All

Implications for:

Anti-Poverty	Equal Opportunities	Environment	Employment
Yes	Yes	No	No

1 Background

In 2004 a clear direction for financial inclusion was set with the publication by HM Treasury of ‘Promoting Financial Inclusion’, which sets out a firm commitment to tackle this issue. The report identifies that the lack of financial capability and levels of over-indebtedness of citizens affect many local government objectives, and recognises the central role that Local Strategic Partnerships can play in addressing financial exclusion.

The Treasury identifies three priority areas for action:

- access to banking
- access to affordable credit
- access to free face-to-face money advice.

In response MCC commissioned Community Finance Solutions at the University of Salford to undertake an assessment of the scale of financial exclusion in Manchester and what options are available to address it.

The survey was targeted in a sample of Super Output Areas selected from a list of the 100 SOA’s with the highest Index of Multiple Deprivation scores. The findings are to be seen as typical of low income areas **not** as representative of the City as a whole. As part of this work a survey of residents has been undertaken by Community Consultants. A total of 411 Manchester residents were surveyed in face-to-face interviews. The interviews were conducted in 20 super output areas (SOAs) with high scores on the Indices of Multiple Deprivation (IMD), selected following consultation with regeneration team colleagues. The SOAs were selected in North, East, Inner South and Wythenshawe (5 in each) and the interviewers were given quotas to ensure that the sample profile matched that of the population of each SOA in terms of age, gender and ethnic origin. Interviews were conducted using a structured questionnaire to allow the results to be aggregated for the purpose of the research.

Across the sample 77% were in receipt of one or more benefits, rising to 96% for lone parents and 88% for couples with children. Half the sample had an income of less than £200 per week with a quarter living on less than £120 per week.

17% of respondents had a child aged three or under and would have received a Child Trust Fund voucher from government worth £250 or £500. Only 80% of these parents said that they had received the vouchers, of which 79% knew what to do with it. 18% of parents had done nothing. After the one year deadline, the government opens an account with one of eleven providers of Child Trust Fund accounts. Many of these default accounts are not actively managed, or charge the maximum fee of 1.5% a year, and are unlikely to provide the best returns on a long term investment.

56% of people reported difficulty in managing fuel bills rising to 70% of lone parents and 78% of couples with children. The overwhelming majority (65%) used prepayment methods of paying for fuel, meaning that the majority of people surveyed are denied access to more advantageous methods of paying for fuel and are likely to be in fuel poverty. 81% of lone parents use prepayment methods for fuel. This is likely to lead to self-disconnection as those on the lowest incomes make choices between spending on food, fuel or other essentials.

Unsurprisingly 39% of the sample overall were worried about getting into debt, with over a third having fallen into debt in the last two years. This rose to 56% of lone parents who were worried about debt. 78% of lone parents and 61% of couples with children had no savings to fall back on in case of an emergency.

With regards to accessing mainstream financial products, 73% of respondents have a bank account although this is well below the national average. Only 34% had a cheque guarantee card and 43% of the sample had no credit, debit or storecard. On access to credit, just over half have some form of credit and 33% had more than one type of loan to doorstep lenders, unlicensed moneylenders or expensive chains such as Brighthouse. Catalogues and the Social Fund were the other most popular forms of borrowing. Only one half to one third of people claimed to know what interest rate they were paying on borrowing.

Perhaps because of this there is widespread interest in different types of financial services, identified below:

45%	Support with finding the best deals
42%	Advice about money matters
39%	Advice about welfare rights
39%	Local source of credit with reasonable interest
37%	Local place to save small amounts of money
37%	More information about financial matters
34%	Advice about managing debts

2 Financial Inclusion issues identified in Manchester

The implications of financial exclusion cut across a number of Council priorities, and there is evidence of widespread problems. Lack of financial literacy as part of basic skills is creating a barrier for individuals making the transition to employment. Use of sub-prime lenders rather than affordable credit reduces families' disposable income and in turn, their children's life chances, and reduces the amount spent with local shops and businesses.

The use of doorstep lenders is costing the local economy an unquantifiable sum – in Manchester this is likely to be in the region of £5 million per annum. There is a need to develop the financial capability of those affected by Housing Market Renewal initiatives, and to minimise the risk of indebtedness and possession action which is being exacerbated by the credit crunch. There is also a need to develop the financial capacity of people eligible for Direct Payments for social care, and to manage individual budgets.

There is a high prevalence of illegal money lending in parts of Manchester and work is being undertaken by colleagues in Trading Standards to address this, as part of the Loan Shark campaign. This will be the subject of a later report to this committee.

The increasing focus on asset-based welfare, including Child Trust Funds and an emerging focus on personal pension provision, adds to the timeliness of the work being undertaken on financial inclusion.

Advice agencies in Manchester, who are amongst the first to notice the impact of the credit crunch in Manchester, are at the point where demand for help is outstripping supply. There has been an increase of 100% in debt issues, 69% increase in rent arrears enquiries, 123% increase in fuel debt cases and 136% increase in water debt cases. Figures for multiple debt cases, number and total amounts of debt are on an upward trajectory. There is an inability to sell property in a stagnant market and more clients are expected to opt for bankruptcy, sale and rent back agreements (SARBS) or even handing back keys as a last resort. There is a worrying growth in the firms charging for debt solutions and promoting individual voluntary arrangements.

A recent OFT investigation found that some sale and rent back firms may have misled customers into believing they had a continuing right to live in their own homes, when in fact they become tenants with no more than six or 12 months' protection and may be evicted after this time. Rents can increase substantially after the initial period, while tenants also face eviction from their homes if their landlords fail to maintain their own mortgages on a property.

Some homeowners may have entered into sale and rent back schemes when it is not in their best interests, the OFT found. Tenants may obtain less than the market value of their property (by around 30% on average) and might over-estimate their ability to pay their rent. For those for whom sale and rent back *might* be the best option, they could be unaware they are currently bearing almost all of the risks.

The OFT concluded that a stronger system of regulation on sale and rent back is required, with more protection for consumers. The FSA should be the regulatory body, and would determine the detail of the regulation.

A further consequence of the decrease in house prices is increased negative equity, which weakens the position of borrowers in arrears when they are negotiating with creditors. The lack of availability of new borrowing is causing problems as housing costs are rising dramatically with little or no chance of new referential rates.

In addition, legislative changes now make it easier for unsecured creditors to apply for charging orders on properties and some – including mainstream lenders, are taking a more aggressive approach to debt recovery.

In short, the effects of the credit crunch on Manchester is a rise in demand for debt advice, help with rehousing following possession action, difficulties across the board in paying for inflated food, energy and fuel costs which will impact most severely on low income residents both in and out of work.

3 The availability and accessibility of debt advice, and current responses

The main providers of debt advice in Manchester are Manchester CABx, Manchester Advice and Wythenshawe Law Centre.. Currently, debt advice providers across the city report huge increases in the number of new debt issues, including mortgage arrears enquiries, fuel debt and water debt.

Agencies are also reporting heavy demand for appointments which they are unable to fulfil. In response, a number of improvements have been secured. These include the following;

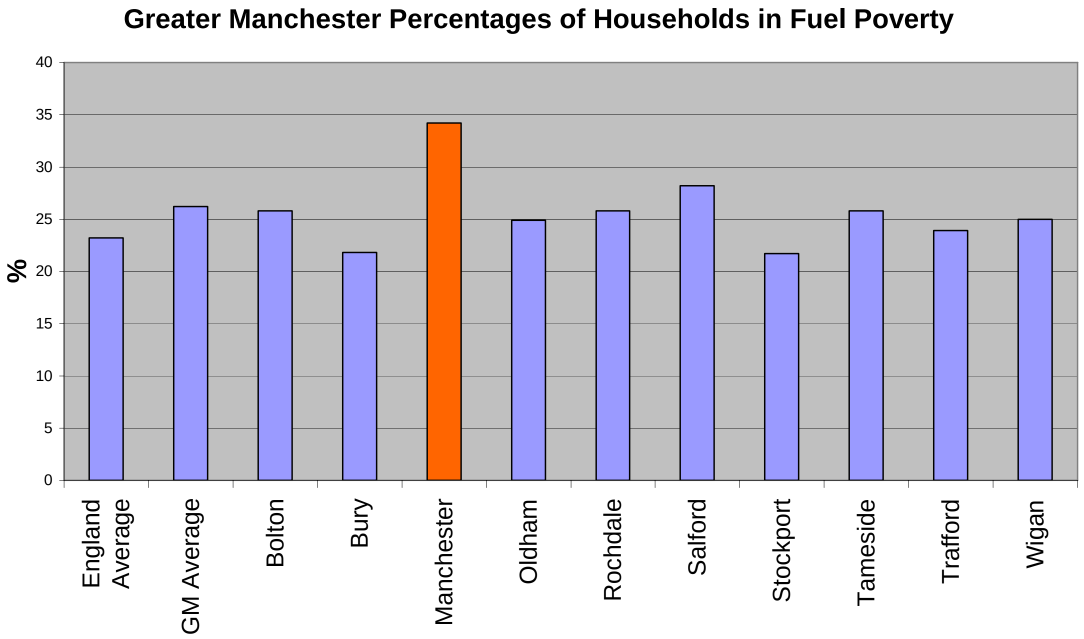
- Additional funding from the charity sector to help people pay bankruptcy fees and get some debts written off
- Funding secured by Manchester CABx to work with people in the armed forces to deal with debt issues
- CABx have planned evening debt sessions in Harpurhey, and an evening session in Swan Street for people with mortgage arrears
- Manchester Advice has negotiated permanent accommodation in the Civil Justice Centre to offer advice to debtors pre or post hearing, on a rota scheme run by debt caseworkers from a range of agencies across the city
- Work has been undertaken with County Court staff to publicise the duty representation rota and to coordinate case listings
- The CABx has led a bid to the Big Lottery Fund to secure almost half a million pounds to improve the co-ordination of advice services across Manchester. This should make it easier to get advice at an earlier stage and to refer people to appropriate help.

Agencies are aware of the need to sharpen their responses to deal with the impact of the credit crunch, and further action is planned, specifically

- To develop a self help pack, to help people take the first steps in negotiating with creditors
- To train more agencies in defending mortgage possession cases, including the use of the new protocol recently announced by government to use courts as a last resort
- An awareness campaign on Sale and Rent Back schemes jointly planned with Housing colleagues
- Development of the planned Mortgage Rescue Scheme, which is to be run by local authorities from January 2009

3 Fuel Poverty

Manchester has an extremely serious fuel poverty problem. All Manchester wards are within the top five or ten per cent of English wards at risk of fuel poverty. The figure below provides a comparison with Greater Manchester authorities:



Essentially there are two approaches to tackling fuel poverty:

- Increase household income
- Reduce household heating costs.

Fuel Poverty mapping can be used to identify target areas for benefit take up in the same way that demographic information is used. A range of tools is available to do this, including fly-over infra red mapping surveys to identify homes in need of loft insulation, which could be used as part of targeting Warm Front installation work.

Provision of advice and support in switching supplier. This apparently simple task is actually very complex for many users and can have a surprisingly large impact on rates of fuel poverty. Gas prices in Manchester vary by up to 35% according to supplier and electricity prices by 40%' according to an Energywatch survey undertaken in 2007. There is ample evidence of doorstep mis-selling by agents of energy suppliers. The basic question "who is the cheapest supplier?" does not have a simple answer, being dependent on each household's usage pattern and chosen payment method. Consumer websites such as www.uswitch.com or www.moneysupermarket.com can offer answers but many Manchester residents will need support to use them. Tariffs available to pre-payment customers show a particularly wide divergence. Pre-payment customers are the hidden fuel poor as 25%[1] run out of credit and are without fuel for part of each week, resulting not only in dangerously cold homes but unacceptable fire risks caused by the use of candles and paraffin heaters. It is much easier for people who are literate in English and ICT to make these comparisons and generate savings. This is a major issue in social and financial inclusion.

4 Role of the Credit Union

Credit unions have a leading role to play in tackling financial inclusion. They offer low-cost loans and access to affordable savings, and are developing a range of financial products to enable them to offer an equivalent level of service to that of mainstream banks. Much work has been undertaken in Manchester to bring together a range of community credit unions into one organisation covering the whole city and united by the common bond of living and working in Manchester. Manchester City Council has agreed in principle to promote the Credit Union with employees including direct deduction from payroll, to help the new Manchester CU to create a strong asset baser. Work undertaken for the report into financial exclusion in Manchester indicates a high degree of awareness of the credit unions in East Manchester and Wythenshawe in particular, but more work is required to develop and promote a credit union for all in the city.

5 Conclusion

Although much sound work is being undertaken across the city described in this report and elsewhere, activity across the piece would benefit from better centralised coordination, given the cross cutting nature of the issues identified. There are obvious links between Economic Policy, Neighbourhood Services and Children’s Services and this work would benefit from being drawn together into an action plan to identify progress against milestones and to identify gaps in activity to create resilience in the City against the impact of the credit crunch. Work is being undertaken with colleagues in the Chief Executive’s Policy Unit to develop a co-ordinated approach.