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TAKEN BEFORE

FINANCIAL INCLUSION COMMISSION

CHEYNEYGATES ROOM, WESTMINSTER ABBEY, LONDON SW1P 3PA

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MR SAM ROYSTON

Oral Evidence

Taken before the Financial Inclusion Commission

on Tuesday 13 January 2015

Members present

Sir Sherard Cowper-Coles
Professor Sharon Collard
Mr Martin Coppack
Dr Omar Khan
Lord Archy Kirkwood
Dame Mary Marsh
Mr Chris Pond
Ms Sian Williams

Witness: **Mr Sam Royston**, The Children's Society.

Chairman: Welcome and thank you very much for coming along. I think you probably know that the idea of the Commission is to take stock of the state of financial exclusion in the UK and make some suggestions to the Government in the run-up to the next Election. We will be aiming to produce a short report probably in early March and this is the last evidence session in London. In fact, you are the last oral evidence giver in London. What I will do is I will get Commissioners here to introduce themselves and then well ask you to make a short statement and then we have got about half an hour for questions so let's get cracking. I am Sheridan Cowper-Coles, Chair of the Commission.

Mr Pond: Chris Pond, Vice Chair of the Commission and in other roles Chair of the Money Charity and Standards Board on Equity Release and former Vice Chair of the Ending Child Poverty campaign.

Lord Kirkwood: Archy Kirkwood, I am a Liberal Democrat Peer.

Ms Williams: Sian Williams, Head of National Services at Toynbee Hall. I am obsessed with financial inclusion and poverty.

Dr Khan: Omar Khan, Director of the Runnymede Trust, a think-tank focusing on race and ethnicity. I have been interested in financial inclusion for a number of years.

Dame Mary Marsh: I am currently in the charity sector having been previously in the education sector and am currently a non-executive director of HSBC in Europe, amongst other things.

Professor Collard: I am Sharon Collard, based at the Open University Business School in the Centre for Public Understanding of Finance.

Mr Coppack: Martin Coppack: My day job is at the Financial Conduct Authority but I am here as an independent Commissioner.

Q. Chairman: Sam, over to you?

Mr Royston: My name is Sam Royston. I am Head of Policy at the Children's Society and the current Vice Chair of Ending Child Poverty, as it happens. The Children's Society is an organisation that works with the most disadvantaged children across

England. We have a combination of different services. About half of our services are a variety of different things: we work with disabled children; we work with young carers; we work with children in care; we work with children who have been victims of sexual exploitation; we work with a lot of refugee and migrant children. We also run the network of Sure Start children's centres. One theme that is consistent throughout our services is the impact which poverty has on children's lives and the desire of parents to be more financially included in order to give their children the best childhood that they possibly can have.

In our recent work in this area we have been focusing particularly around two issues. Firstly, we wanted to put children's voices at the heart of the child poverty debate which is why we set up the Children's Commission on Poverty, which is a network of a commission of 16 young people aged between about 10 to 19, many from very disadvantaged backgrounds themselves (although not in every case). The one uniting feature amongst them is their desire to do something about child poverty in Britain. They have spent the last year and a half exploring the issues of child poverty from their own perspective and that of their peers and have recently just completed an inquiry looking particularly in detail at the cost of school. This is something they felt extremely passionate about. For many of them it was having a real impact on their ability to participate within education, but also something that they knew from their schools, their peers, their teachers was a big issue affecting many children in schools across the country. That is ones aspect that we have been looking and the Young Commissioners just completed that inquiry in autumn last year and their report on the costs of school I am very happy to answer any further questions about.

The other key area that we have recently been exploring has been around debt. This has been something that we have been very concerned about that has come up from a lot of our services as one of the key factors which traps families in poverty is the impact of problem debts. Our initial report on this subject, *The Debt Trap,* which we co-wrote with StepChange, the debt charity, showed the too-often ignored impact that debt has not just on the debtor themselves but also on other people within the household and particularly on children. We think that this is an area which has for far too long been under-explored probably because children themselves do not normally have the debts, it is normally the parent, but one thing that came up very consistently through that research was the real impact this was having on children's lives, from families cutting back on basic essentials like food, fuel and clothes, through to emotional impacts on the children affecting children's experiences of school. Many children in debt told us of their experiences of bullying and embarrassment amongst their peers as a result of the financial problems affecting their family. We also wanted to explore a few issues in particular detail around debt, and the first of those that we looked at was the advertising of payday loans. One of the factors that came up really strongly within our *Debt Trap* report was that too many children were getting too much of their knowledge about debt and money management not from their school, not from their parents, but from advertising on the television. The majority of children aged 10 to 17 whom we surveyed said that they saw payday loan adverts often or all the time with about a third saying they saw them all the time. Against that, only a minority of children said that they thought they were getting a decent financial education from their school. It raised a real concern for us about where children were getting their knowledge of debt and money management from. We explored this further in a report called *Playday, not Payday* and we since then did some work around the Consumer Rights Bill to encourage the Government to make changes which would restrict the scheduling and content of payday loan advertisements to limit the impact that these were having on children. We also lobbied for restrictions on the tele-marketing of payday loans, as many parents were telling us that they were hearing far too much from payday loan companies, with many telling us that they were receiving multiple calls a day, and actually these were having an impact on them taking out loans. On both of those cases we got some real steps forward. The Broadcasting Committee on Advertising Practice, which is associated with the Advertising Standards Authority, was asked by the Government to look at the scheduling of payday loan advertisements, a consultation they are carrying out right now and we are feeding into. We very much hope that they will take the steps that are necessary to restrict that advertising. The Government also asked the Financial Conduct Authority to look at the tele-marketing of payday loans, something which I know will happen during the course of the year, and again we will be very keen to feed into that. So that was the first area that we explored.

The second area which we will be publishing on later this month was on fuel debt. I will not be able to tell you too much about it because we have yet to publish it, but we did a survey of parents and children about their experiences of fuel debt and also did a lot of interviews with family around their experiences of fuel debts as well. One of the things that came out very clearly in that where *The Debt Trap* had shown that debt more generally resulted in families cutting back on all kinds of basic essentials, what was really interesting and worrying about fuel debt was that for those families it clearly had a very strong impact on what they did about paying for fuel, with many families in energy debt telling us that they cut back on heating their children's bedrooms, cooking hot meals, even enabling their children to have hot baths and showers, as a result of suffering under energy debt and feeling that they needed to cut back their energy use as a result. We have a number of recommendations we will be taking to energy companies, to Ofgem and to the Government around this from ensuring that Ofgem recognise that families with children are a vulnerable group of energy consumers which is not sufficiently recognised within current legislation, but for energy companies themselves we want them to ensure that access to advice is made as easy as possible. In particular, we want energy companies to ensure that help lines are freely available, including for people who only have mobile phones with which to contact them so that they can get the advice and support that they need as soon as possible and without incurring significant charges. We also want them to take more action to reduce the cost of pre-payment meters with many families facing higher costs on pre-payment meters even though in many cases they are switched without choice as a result of getting into debt, so the very fact of getting into debt resulting in them incurring a premium on their energy bills. So that is the work that we are doing at the moment. In the future we are also undertaking research which we will be publishing around March/April time around local authority debts and the impact that that is having on families, but I think I have probably spoken enough so I will stop and allow you to ask some questions.

Q. Chairman: Thank you very much indeed. I have certainly got some questions for you, but I will ask my fellow Commissioners if they have got anything to ask you about first. We infer from everything that you have said that you believe that what the Commission is doing, that the idea of getting the next Government to refocus on financial inclusion is something that should be happening, but could you just confirm that for the record?

Mr Royston: Goodness yes! Do I need to say any more?

Chairman: We are asking every witness so that we can say all our witnesses support that.

Q. Lord Kirkwood: Just one question from me because we have a mutual interest in it, and well done with all the campaigns by the way, they really are effective and people pay attention to them so well done you. I am very interested in Universal Credit. Could you give us a six-sentence SWOT analysis of Universal Credit as it impacts on debt and financial inclusion.

Mr Royston: Of course we are not very far down the road with regard to that. We have just started to see Universal Credit introduced for families with children last autumn and as it happens I co-chair with DWP a joint stakeholder group around Universal Credit and children and families which is looking to improve communications around the new system as it is introduced initially in the Pathfinder areas and then rolled out across the country. I think there are aspects of the system that are fantastic. This is something I do not think the Children's Society have made any bones about at all over the last few years. For certain groups there are clear work incentives, there are clear areas of the new system which are simpler and easier to understand and for many there are real financial benefits to it. However, I think that there are also some very real concerns about the introduction of the new system, both with regard to the structure of payments but also with regard to the administration of payments. One thing that came out very strongly during the course of the Welfare Reform Bill was issues around payments for families with disabled children. We are very concerned about the reductions in the levels of support for families with disabled children. If I remember right, there is a cut of about £26 a week for many families with disabled children as a result of reductions in the value of what are known as the disabled child additions. We are also very concerned - and I think that this has not got sufficient attention really - about the impact of changes to support for disabled lone parents with young carers. The new Universal Credit system gets rid of an important payment called the severe disability premium. This is a payment worth around £59 a week, so about £3,000 a year, a very large amount of money for a low-income household, which is paid to disabled adults with no other adult to care for them. So if you have a non-disabled partner, you would not receive it. If you have somebody else in the household or outside of the household who receives Carers' Allowance for you, you also would not receive it. Where you would receive it is if you are a single disabled person living alone. The other key group from the Children's Society perspective we are very concerned about is lone parents with young carers because there is no other adult in the household to look after the parent. In those cases we know that young carers are already giving up their opportunities in education and their social opportunities in order to care for other people within the household, in this case lone parents, and it really limits their opportunities. I have spoken to a couple of families receiving the severe disability premium with a lone parent and a child in the household and that money is absolutely crucial to enable them to pay for private care which reduces the burden on the young person within the household. One family said that they spent it on private care. They spent it on getting somebody to take them in to help them with the shopping once a week, that kind of thing that you can use that money to pay for. If that money is not there, either they take out loans in order to cover the costs of their private care or more likely that burden falls on the child in the household, and I think that that is simply unacceptable and we are really concerned about the impact of the loss of the severe disability premium.

We are also very concerned about the administration of the new system. We have heard an awful lot about the introduction of direct housing payments and a lot of very genuine concerns about what impact those are going to have. It largely happens already for those in private housing, but for people in social housing instead of getting their housing benefit payments paid to their landlord, they will get it paid direct to them. Concerns have been raised that many households will not be able to cope with those payments. They will fall into arrears on their housing and this is going to have severe consequences for their ability to sustain their tenancies. So there is a real problem there.

I am also really concerned about a new issue which I think has only really emerged in the last few months and this is with regard to childcare costs and how childcare costs are paid for within Universal Credit. There are some very welcome things they have done with regard to childcare costs. They have agreed to introduce a higher 80% childcare component for all households now on Universal Credit which is very welcome. They have also agreed to extend help with childcare costs to families working fewer than 16 hours a week, which you would not currently get within the current system, which is again very welcome. The key concern is that they are changing the way that help with childcare is paid through Universal Credit so that instead of getting your initial payments upfront which you can then use to pay for your first childcare expenses, it will work on a system of reimbursement so people will pay their childcare costs and then get reimbursed for them.

Q. Lord Kirkwood: This is a very intelligent and lucid explanation of some of these wider policies. I wonder if I could just ask you to address my follow-up question which is more rooted in our work directly. There is, as you will understand better than most because you are part of the stakeholder group, a wrap-around local welfare social provision to help people through the digital divide and bits and pieces. From your knowledge of that new opportunity, do you think that there is anything that we could add to that sensibly that would help with the whole question of financial literacy and financial inclusion? When the client comes in for the first time and they have got an adviser in front of them, is there anything sensible you think we could suggest that would help increase literacy about some of the wider problems of debt within the Universal Credit envelope?

Mr Royston: I think that the key thing would be with regard to the Local Support

Services Framework and it is one of the points that the Work and Pensions Select Committee made with regard to this, which is about opting in to alternative payment arrangements. At the moment the way that alternative payment arrangements which are considered within the Local Support Services Framework are structured is that in order not to have your payments made monthly, in order not to have your housing benefit paid directly, basically it will have to be recommended by your adviser that a different course is taken. We would like, and I believe this was also the recommendations of the Work and Pensions Select Committee, although I would have to double check this, that people should be able to opt in themselves to alternative payment arrangements. They are concerned about their financial literacy. They are concerned about their skills and their ability to deal with the way that Universal Credit will be paid. The should have the ability to self-refer for alternative payment arrangements so they do not have to budget over monthly periods if they feel that would be challenging for them, they get their payments more frequently and they can have their housing payments paid directly to their landlord rather than having to deal with them themselves. If that change were made, that would be a big relief for many families who will really struggle.

Q. Mr Coppack: You have talked a lot about credit and debt issues in Universal Credit. I just wondered if you had any thoughts around savings for resilience in families, basic banking and insurance, that sort of thing?

Mr Royston: Absolutely. One thing I would like raise is a project where we worked with the Church of England and Young Enterprise and the Association of British Credit Union Lenders which was around making the case for savings clubs in schools. We know from many pieces of evidence, including from the Money Advice Service, that children's knowledge and understanding of debt and money management issues starts very early. We want to make sure that the right attitudes, including positive attitudes towards saving, are inculcated in young people right from the very earliest years. We co-produced a paper called *Supporting Young Savers* in September of this year which made the case for establishing a network of savings clubs in primary schools to improve the financial education of young people and to encourage them to save. The idea would be, and this is something which already happens in certain circumstances, in certain areas of the country that there is a partnership between a school and a credit union to enable a savings club to be set up within the school with money paid into a credit union account. The young person would then be able to put money in and take money out of the credit union account and, importantly, that savings behaviour would be joined up with financial education within the school setting so it could be joined up with lesson planning as well. It is very welcome that the C of E's Credit Union Task Force and Young Enterprise have taken this forward in practice and that has now been granted, I believe, £150,000 from the Treasury to start to put some of these young saver projects into place across the country, which we very much welcome and look forward to seeing how that pilot pans out over the next year.

Q. Dr Khan: You have superseded my question. I was going to ask about the Child Trust Fund and any thoughts about that. Obviously that is a more ambitious version or potentially requires more Government support, but I suppose it is part of a wider question which you have already started to answer which is it is great to hear you are doing a campaign to prevent exclusion, but what else could we do to promote inclusion for young people? I heard you say, rightly, getting information from ads on TV is not the right way but also that people are not necessarily picking it up from schools, so in addition to young savers' clubs, how can we improve? If we are a Commission trying to promote inclusion and capability in young people, are there better delivery channels? Are schools the right way? Do you have a view about that? Then with the Child Trust Fund and saving generally for young people, do you have a view about the degree of control that an 18-year-old can exercise over those funds or do you have any concerns about that?

Mr Royston: What concerns me about the Child Trust Fund is the Child Trust Fund was established some time ago and the young people with those Child Trust Funds are 11/12 something like that. It does not feel like any evaluation has really been - and I could be wrong - followed through to see how the Child Trust Fund actually worked. I think it would be a real missed opportunity if there is not an effective evaluation in place to see what do those young people get out of the Child Trust Fund. I know for various reasons the Child Trust Fund was ended, but it feels wrong if for those young people who currently have the Child Trust Fund we are not looking now at what impact that actually made on their lives. I think that in order to answer some of those questions about what happens when these young people reach 18 and they have access to the fund, we have to make sure that when they reach 18 and when they are getting up to that point the evaluation is put in place to ensure that the Child Trust Fund, which will by then be a distant memory, is properly evaluated so we can learn lessons from it and potentially consider reintroducing it in the future. But certainly the evidence suggested that actually the Child Trust Fund was an effective way of increasing savings for young people from disadvantaged backgrounds because they got a higher rate of support paid into those accounts. I did a short literature review on this some years ago and the evidence also showed that the aspect of it which seemed to work least well is, unfortunately, the aspect which has been retained which is more tax exemption wrappers for savings because young people from the most disadvantaged backgrounds their families are not able to add more money in as effectively as those from higher income backgrounds can. I think it is a shame that the Child Trust Fund was ended, but the most important thing I think is that we learn from it and find out how it actually did work.

Q. Ms Williams: We know that children learn most of what they know about money from their surroundings and so that is traditionally family and friends and obviously the television comes into their homes so they see that as well. One of the things that Omar and I have particularly thought in the past is around the transmission of financial exclusion from parent to child so that if your parents are not included then you do not see a pattern of inclusion, so when you get to 16, 17 or 18, and if your parents are not regularly using for example a bank account or different financial products, then you are not alert to them or you might have a low level of trust around them. One of the big reasons for self exclusion is, “I don’t trust it. Mum and dad didn’t use it. I won’t use it.” Other than the obvious thing of let’s get into schools and educate, what else can the Government or the third sector or financial services sector or anybody do to stop the transmission of exclusion from parent to child? If you could see anything change to stop that transmission of exclusion, what would you like us to recommend?

Mr Royston: The focus with regard to children living with parents is that you have to ensure that parents have effective financial education and are effectively financially included so that they are able to pass on those lessons to their children. The other thing is preventing information from the wrong sources, from undesirable sources such as advertising being the way in which young people learn about these things. I think the other issue which you allude to or pass across is what happens when young people first become financially independent. We are doing a lot of work at the moment around 16 and 17-year-olds particularly who are perhaps becoming independent for the first time and what are the problems they face and what support they need. We know far too often that it is the case that it is young adults who have just started to live independently who often will have the most irresponsible, sadly, attitudes towards debt and money management, often just because they have not had the level of experience that older people have. Many of the interviews that we did for *The Debt Trap*, we spoke to parents who were 29 or 30 or older who had first started getting into debt when they were 18 or 19 when suddenly they were independent, when their friends were saying "Let's go on holiday", and suddenly they had access to credit and they had not necessarily been given the skills to enable them to deal with that effectively. So I think that older children getting that safeguard as they start to move into independence is very important. I think that is particularly important for children who have not necessarily got the same support into adulthood as other children. I think particularly for example of children leaving care. I have heard of children leaving care who do not know about council tax and get into council tax debt because they did not know they had to pay council tax, young people who get into debt because suddenly they have got this credit available, and ensuring that they have got financial support as part of the leaving care package but also for those young people who miss out on a leaving care package as a result of being on the edge of care, we are also ensuring that there are safeguards in place to enable them to have the right attitudes towards money as well.

Chairman: Thank you very much. It is rather sobering but in a way uplifting note on which to end because I think Sian has put her finger on it; it does go from generation to generation and breaking that vicious cycle is something that we should focus on so thank you for raising that. Thank you very much, Sam.