

# LGA Submission to the Financial Inclusion Commission

12 December 2014



The **Local Government Association (LGA)** works with councils in England and Wales to support, promote and improve local government.

## Context to our submission

- Securing financial inclusion is a challenge against a background of one of the most difficult public-funding climates seen for decades.
- Many low income households who have not yet experienced the benefits of the improving economy.
- Rising costs of living in relation to basic needs, such as fuel and food, together with higher housing costs are exacerbating the problems of vulnerable residents and pushing others currently at the 'tipping point' into potential financial difficulties.
- Financial inclusion is central to the success of Universal Credit (UC) and a prerequisite to realising planned savings and efficiencies through the government's programme of welfare reform.
- Councils have a key role in supporting the roll out of UC through Universal Support delivered locally (USdl). The Department for Work and Pensions (DWP) have identified financial inclusion as a crucial component of this support.
- USdl provides both a challenge and a real opportunity for councils to work with partners to deliver financial inclusion support as part of a wider wrap-around package of assistance.
- Councils provide essential local welfare assistance to ensure that debt and cash flow problems don't undermine people's ability to search for work and remain in a stable tenancy.

This submission focuses on welfare reform, USdl, and the role of local government. Our submission includes reference to some examples of the work councils are pursuing to try and ensure their residents are financially included, and can contribute socially and economically to the vitality of their local area.

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# Submission

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## 1. General

(Policy, the role of local government and practical examples)

### 1.1 What policy change would most support increased financial inclusion for the client group you represent?

The devolution of powers to local level is needed to increase the flexibilities which would allow partners locally to support vulnerable people in an integrated way.

Financial inclusion may be one of several interconnected problems that an individual may have, and councils have a key role to play in the coordination of partners to help provide the holistic support which some people need. One of the key ways in which people become 'financially included' is through stable employment and housing.

To respond better to these important themes, councils need more freedom and flexibility so they can:

- set the right conditions locally which will grow their local economy
- oversee and co-commission support from training providers and employers to ensure local economic growth is matched by the right workforce, ready to take up any employment that is created - the LGA suggest that the re-let of the Work Programme in 2017 should be used as an opportunity to provide devolution in this area
- intervene early to help those facing the greatest barriers e.g. debt, mental health etc.
- borrow money to allow the construction of affordable housing which will give people more options to manage their housing costs.

These themes are developed further in the LGAs 100 days campaign<sup>1</sup>.

Without devolution as described above there is a real risk that councils and partners will not be able to help those on low incomes to contribute to and benefit from growth.

#### 1.1.1 Further comments and recommendations about policy changes to support financial inclusion

Whilst USdl provides opportunities to reduce financial exclusion as part of an integrated package of support from local partners, there are risks too. We suggest that the USdl programme will only be fully successful in reducing financial exclusion if the following policy and strategic issues are recognised and addressed:

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<sup>1</sup> The LGA's 100 days campaign can be found at <http://100days.local.gov.uk/>

- **Clarity from the government is needed about the continued funding of both Local Welfare Assistance (LWA) and also Discretionary Housing Payments (DHP).** Discretionary local authority payments for financial crises can provide vital temporary assistance and a trigger for referral to financial and other assistance and a way to drive longer-term behaviour change aimed at financial inclusion.
- **Councils need to have more clarity about the funding of this support before committing to develop USdl in their area.** USdl exemplifies an approach to partnership working and co-location that enables effective integration and tailoring of support for financial inclusion, employment and housing that would help people to overcome complex challenges.
- **We suggest that banks should be better linked to local communities.** Whilst there are some examples of excellent work to promote local community banking, we suggest that more could be done to promote basic bank accounts, and provide or signpost more bespoke assistance to individuals.
- **Further support for Credit Unions is needed,** particularly to help provide better services in areas where Credit Union coverage is currently patchy, notably in rural areas.

## 1.2 What do you see as the key role of (local) government in promoting financial inclusion?

### 1.2.1 Universal Credit

The success of UC as a concept depends on people taking more responsibility for managing their own money. Local authorities working with partners will have a key role in helping people with the following:

- having access to a bank account that they can use (and keep regularly in the black)
- accessing and using online banking (digital inclusion)
- managing UC payments on a monthly basis, and effective management of any existing and ongoing debt / financial literacy problems
- budgeting housing costs on a monthly basis as part of a UC payment rather than payment of Housing Benefit going straight to the landlord as it does at the moment.

The majority of people faced with these responsibilities will be able to cope without a problem; however there will be a significant minority who will find these things a considerable challenge.

Councils are well placed to assess who may need help and refer them to appropriate assistance on financial and digital inclusion. Some practical examples are given below.

### 1.2.2 Locally flexible discretionary support and triggers for financial advice

In parallel to supporting USdl as UC is rolled out, councils also have a current and ongoing role in locally tailored provision of Local Welfare Assistance (LWA) and Discretionary Housing Payment (DHP).

**Local Welfare Assistance (LWA)** - the crisis loans and community support elements of the Social Fund were localised in 2013/14 at the same time as being reduced by 10 per cent. The funding is £178 million in 2014/15. For 2015/16 separately identifiable funding has been provisionally withdrawn. The Government is currently consulting on its possible retention following a legal challenge. The LGA is firmly of the view that this funding provides a vital safety net that can prevent people from falling into sustained hardship, as well as providing support at key points in people's lives – for example for a homeless person moving into a stable property. Councils' involvement in this area helps communication and coordination between partners who might also provide assistance at these times to ensure that debt and cash flow problems don't undermine people's ability to search for work or remain in a stable tenancy.

**Discretionary Housing Payment (DHP)** – Councils have for some time received a small amount of money to help people with their housing costs in exceptional circumstances. This pot of money was increased with the specific intention of enabling councils to smooth the introduction of the welfare reforms in particular changes to Housing Benefit, the Removal of the Spare Room Subsidy and the Benefit Cap. In 2014/15 DHP was £165 million, but for 2015/16 the only confirmation so far is the continuance of the Spare Room Subsidy element, worth £65 million. This lack of certainty over future funding causes real problems for councils, particularly as many of the consequences of the welfare reforms – for example the removal of the spare room subsidy from a disabled adult living in a specially adapted property – are in fact long term.

Many councils use applications for crisis support via **Local Welfare Assistance (LWA)** or **Discretionary Housing Payment (DHP)** as an opportunity to support and signpost applicants into financial capability training, and debt advice. Some councils award DHP on a conditional basis, as a way of encouraging beneficial money management habits.

Local authorities also use arrears in council tax payments and rents as a trigger for referral to financial advice.

### 1.3 Do you have any practical examples of financial inclusion initiatives that have been successful?

Councils and their partners are uniquely well placed to understand and address the interconnected nature of the challenges that many low income households face, and to draw together partners and funding streams.

In Brighton and Hove the council have brought together council funding and JCP Flexible Support Fund to set up their Community Banking Partnership, which draws together and co-locates support from the statutory, community and banking sectors.

In Derbyshire their county-wide approach to Financial Inclusion – Financial Action and Advice Derbyshire (FAAD) - is driven by the Directors of Public Health and led by Rural Action Derbyshire, a charitable body which brings together the County Council, District Councils and partners across the area to deliver a range of support and advice. A key strand of FAAD's work is Big Lottery funded Money Management training for people at risk of debt and financial exclusion including care leavers, people of back-to-work programmes, women in refuges and people seeking local welfare support.

FAAD has also worked with each of the Derbyshire Districts to train a wide range of frontline staff in housing, benefits, social care and mental health in what support and advice is available in their local area.

### 1.3.1 Universal Credit and Universal Support delivered locally

The Department for Work and Pensions (DWP) has worked with the LGA and local councils to deliver a number of pilots to explore and develop local support for Universal Credit claimants. An initial tranche of pilots were completed earlier this year. A further tranche of 'trial sites' are currently building further on that experience. The pilots have already demonstrated a range of insight and good practice.

The pilot work has shown how councils can develop a complex understanding of claimant needs through effective triage.

Triage involves careful questioning to reveal issues where help is needed; in many cases this will include financial advice. In West Lindsay, at the first contact stage, customers fill in a form which includes questions on money advice.

In Lewisham, pilot work showed how, at the first contact stage, hand-written envelopes and individualised communication was the most effective engagement strategy for initial screening triage. The Oxford pilot was praised for its informal triage style which allowed issues, including financial matters, to gradually emerge through open questioning.

In the first four weeks of the Lambeth pilot, they completed triage with 220 claimants. 37% of these were identified as having no needs, 38% of these were identified as having transitional needs, and 25% were identified as having medium/high needs and requiring a face-to-face appointment.

Feedback from the pilots clearly showed that the way councils refer claimants to partners for help on financial and other matters is very important.

Having triaged claimants, a referral to a trusted partner may be necessary. All the pilots confirmed that a 'warm hand over' i.e. personal introduction is most effective. The pilots have helped show that councils are in the best position to locally mobilise a diverse base of provision including financial advice, which is tailored to local claimants' needs.

The pilot at Melton Borough Council tested collocation with other partners in the same building; this allowed very effective handovers, for example to Citizens Advice for help with financial inclusion matters.

It is important to monitor client progress through referral onwards. Several trials achieved this through log books held by the client. In Birmingham, an electronic log book allows central collation of information on referrals. In Oxford, each client's progress was monitored by an assigned a case worker.

The pilots allowed valuable insight into the real challenges around providing financial inclusion training.

Insights included:

- Referrals for financial advice were best on a one-to one basis.
- The pilots strongly suggest that proactive involvement in promoting financial inclusion works best when it is introduced as part of assistance on some other area of people's lives, for example, childcare, healthy eating, IT training, or referral to a food bank.
- Many of the pilots noted a tendency of customers not to engage with the assistance advertised and available until a crisis point has occurred.
- Several pilots commented that a crisis point allows an opportunity to engage with the customer at a stage when they may be more receptive to money advice and a package of wider assistance from partners.

The pilots allowed valuable insight into helping claimants improve their skills and employment chances.

The digital log book developed in Birmingham is aimed at assisting unemployed people move closer to finding employment. It is carefully designed to help develop people's independence and development in a range of areas including money and budgeting, digital skills, work related skills and health.

At Melton Borough Council, their ESF funded project called 'Me and My Learning' is a one-stop-shop centre in the council offices. It provides access to training, skills and courses relevant to seeking employment.

Many of the pilots focussed on the role councils can play in helping to deliver digital inclusion.

It was clear from the pilot work that a large proportion of people (about 80%) are already digitally included, and these people should be given support to 'self-serve'. However the trials also demonstrate the 20% who are not able to help themselves will need intensive face-to-face support.

Digital delivery will exclude many people from commonly used on-line banking solutions, and in the future access to UC on-line payments. These problems are likely to be a particular issue in areas of poor broadband coverage and low IT access, in rural areas such as West Lindsay.

West Lindsay Borough Council has carried out a number of funded pilot programmes to explore how to secure better digital inclusion. Over 25 digital hubs with trained volunteers have been created across a wide geographical area to make them accessible to every resident. They have been established in various premises including community centres and village halls.

### 1.3.2 Some pilot outcomes

In North Dorset District Council: 90 individuals attended budget management training; The First Dorset Credit Union was able to improve infrastructure with funding from Barclays Bank and now provides 'jam jar' accounts. Eighty individuals have opened Credit Union accounts and the local housing association has seen a reduction of £50,000 in their rent arrears during the course of the project.

In West Lindsay there were one hundred visits in 6 months to a new credit union access point in the Guildhall. Of the Moneybox (financial training) attendees in social housing, 100% have maintained their tenancies and there has been a 14% reduction in arrears. There was much interest in the volunteer (Digital Champions) roles and the project now has 41 active volunteers.

The approach taken in Oxford is not to treat financial capability, digital inclusion and work readiness as separate issues but as related barriers to life in the modern age. Through the current project so far, 135 referrals have been made to other agencies to arrange support for their customers, including 39 referrals to the CAB debt adviser and 24 to the local community job clubs.

1.3.4 The South London tri-borough – made up of Lewisham, Lambeth and Southwark – are one of the **current trial sites**.

Lewisham were one of the original pilots and took a very successful partnership approach that involved co-locating services to address debt, financial inclusion, employment and housing needs across partners in an holistic way.

Lambeth have undertaken a wide range of work to explore and promote financial inclusion. For example 8,000 Lambeth residents are currently being paid their benefits through Post Office Card Account or giro cheque. These options will not be suitable under Universal Credit. The council have been working with a local charity and with 5 high-street banks to support residents to open basic bank accounts, through outreach work, one-to-one support and drop-in sessions. They have now supported over 400 of their most financially excluded residents to open accounts.

As well as supporting these clients to open accounts, they are also ensuring that they have set up benefit payments and direct debits, and are supporting them on an on-going basis to make sure that they are successfully managing their money.

Southwark were one DWP's Direct Payment Demonstration Projects, piloting payments direct to household (rather than landlords) as will be the norm under Universal Credit. This involved them in developing a wide range of support to ensure that tenants were better able to manage their money, although this was found to be very resource intensive. The challenges they faced have been instrumental in DWP's subsequent review of the level of arrears at which tenants should be 'switched back' to a payment to the landlord, and the current proposals around enabling 'trusted partners', including councils and social landlords, to continue to make local decisions about Alternative Payment Arrangements under Universal Credit to prevent debt and arrears.

The present joint trial between the three councils includes testing the local level of need around making and managing a Universal Credit claim (i.e. using a bank account, using the internet, managing a monthly payment), testing a triage process within Jobcentre plus, and testing partnership working between three boroughs, DWP and Jobcentre plus.

The pilot teams are based in three Jobcentre offices and are multi-organisational, with staff seconded from JCP, the three local authorities and the Citizens Advice Bureau. The pilot has committed to triage a minimum 2,700 claimants, which equates to 100 per borough, per month, over a 9 month period.

## 2. Transactional banking services

### 2.1 What transactional services do households on low or unpredictable incomes need or want?

The experience of local authorities suggests that they just need a basic bank account which offers savings and a direct debit option without overdraft facilities. Post Office current accounts are often held by those who have no bank account; however these are not suitable for UC or other transactional payments.

Jam Jar accounts can be a considerable aid to budgeting and have been promoted by many Credit Unions and local authorities. Anecdotal evidence suggests that banks have been less keen to provide them.

These digital accounts replicate a traditional method of budgeting in which money for different purposes is kept in different jam jars. For example, one jar could be for 'spending', one for 'bills' and perhaps another for 'savings'.

### 2.2 What improvements are needed to make basic banking fit for purpose?

Feedback from councils suggests that clients' experience of availability of basic bank accounts is rather patchy and varies between different banks, and branches within the same bank. This may be a result of inconsistencies in the way front desk staff assess potential customers' ID and references, rather than a bank's policy. However, the end result may be difficulty for many people in setting up an account.

Whilst supporting the small minority without an account is important, there is also a need to help people to use and manage their existing accounts more effectively. Many people lack the skills and confidence to use their account for regular transactions or are too often in debt to use it reliably.

Anecdotal feedback suggests that banks do not always engage with other local stakeholders who deal with financial inclusion, and rarely signpost their customers for further advice locally. For example one of the high street banks we are aware of have a centralised Money Management Team to which customers in financial difficulty are automatically referred; this hampers the ability for local staff to refer customers for more tailored, comprehensive and sustained support which may be available locally.

In Brighton and Hove, there is a close and developing partnership with local banks. The council hosts a quarterly meeting with local bank managers and is working with them to equip their frontline staff to signpost people to local advice provided by 'Money Works' for more sustained financial advice and support.

It has been suggested that many of the local bank managers would like to be able to do more but they are constrained in part by the move to online banking, centralised systems and lack of local discretion all of which reduces face-to-face interactions with vulnerable customers.

### **3. Affordable and fair credit**

3.1 Is there scope to bring people into mainstream credit who are currently excluded whilst also ensuring that this does not risk financial difficulty?

Councils and Credit Unions are increasingly looking to provide small short-term loans as an alternative to payday lenders and loan sharks.

A pilot by London Mutual Credit Union in 2013 clearly demonstrated that Credit Union provision in this market was a viable business model and worked well for customers<sup>2</sup>. Those who open a Credit Union account also have access to other low cost savings products which may help increase their financial capability.

In many parts of the country local authorities engage with credit unions and promote their activity. However there are geographical gaps in Credit Union coverage particularly in rural areas. The most active Credit Unions tend to be in larger urban areas where a dense population helps their viability.

Birmingham has a very successful Credit Union known as Citysave. This was initially established as the Birmingham Council Employees Credit Union, to provide easily accessible savings and borrowing facilities to its staff. From 2004, they have provided ethical and affordable financial services to all those who live or work in Birmingham. Today, Citysave provides CashPlanner Accounts, a wide range of savings plans including ISA's, and ethical and affordable loans, to around 10,000 members from the wider community.

Bristol City Council worked closely with Bristol Credit Union (BCU), and wrote to LHA claimants to promote the ease and convenience of BCU rent accounts. The scheme gathered momentum, and some landlords now make the BCU rent account a condition of tenancy for tenants in receipt of LHA. To date, BCU has in the region of 1,104 rent accounts in operation, paying 336 landlords on a fortnightly basis.

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<sup>2</sup> See

<http://inclusioncentre.co.uk/wordpress29/wp-content/uploads/2013/09/Can-payday-loan-alternatives-be-affordable-and-viable-Summary-Report.pdf>

3.2 For people who are unlikely to qualify for mainstream credit, what might the affordable alternatives be? Should banks, building societies and others play a role in provision?

We suggest that banks should play a role in making affordable credit more available or signposting customers to suitable lenders such as Credit Unions. A proper introduction to alternative reliable lenders may prevent clients resorting to payday loan shops or doorstep loan companies.

We are aware that banks will give their own financial advice to customers; however it is suggested that some banks could be more flexible in signposting independent sources of money advice such as the Citizens Advice, the Money Advice Service or any similar council service which might be available.