# A Financial Inclusion Strategy for Knowsley 2013 – 2015

*Produced in partnership with Policy Impact and Intelligence, Knowsley Metropolitan Borough Council (December, 2012)*

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# Introduction

## Setting the scene - a message from the Cabinet Member for Finance and Information Technology

Exclusion from the kind of financial services that most people take for granted is both a symptom and cause of poverty. Many people, particularly those living on low incomes, cannot access mainstream financial products, such as bank accounts and low cost loans. For these people, the costs of transactions as simple as cashing cheques or paying bills are higher than they are for others. Those with the least money often lack easy access to town centres or out-of-town superstores because their transport options are limited by cost; bus fares in Merseyside have more than doubled in the last 10 years. As a result they may have little or no access to their bank or the cheaper prices that the big stores offer. Around 22,000 Knowsley residents are thought to be unable to shop or bank online because they can't afford the technology or don't understand it. Even with access to a bank account, many will not be able to secure cash through normal channels because of lack of funds or a poor credit rating.

For people in these circumstances, the alternatives often cost more. They may have to buy essentials at local shops where prices are higher; they may have to limit their shopping to infrequent trips to out of town stores; and they may turn to loan sharks for emergency credit at extreme interest rates. These additional costs – a 'poverty premium' – have been estimated to cost an average family in poverty almost £1,300 a year.

Financial exclusion also has broader implications - problem debt is a contributor to wider issues of social exclusion. It can result in stress, poor health and family breakdown and undermines efforts to reduce child poverty, health inequalities, worklessness, neighbourhood decline and homelessness. In Knowsley, nearly 12,000 children are already growing up in poverty, but the financial crisis and subsequent economic downturn of the last five years has threatened the welfare of many who were previously considered to be secure. Housing repossessions in Knowsley have increased by **93%** since 2004, and over the last two years, Knowsley residents have presented to money advice agencies with debts totalling almost £26 million. The threat of financial exclusion has widened, therefore a strategy for financial *inclusion* is needed.

Knowsley was one of the first local authorities to recognise the importance of taking action to combat financial exclusion and good progress has already been made locally through the previous Financial Inclusion Strategy (2009-2012). Last year, money advice agencies supported residents to successfully write off over £300,000 in unmanageable debts, local credit union membership has increased as a result of promotional exercises and residents can now access financial advice through a wide range of accessible community locations.

Whilst we are proud of our earlier successes, we know that now is not the time to be complacent. The economic picture has changed dramatically. The UK is making a slow and unstable recovery from a tough economic recession. Rising fuel prices, inflation, job losses and welfare reforms are putting increasing budget pressures on families who are 'just coping', and also families who might not have experienced financial difficulties before. Added to this, public sector resources to help tackle the problem have declined and local authorities must find ways to achieve more with less.

Knowsley's Financial Inclusion Forum is therefore pleased to present Knowsley's refreshed Financial Inclusion Strategy for 2013-2015. This strategy builds on the successes of our previous approach to tackling financial exclusion, and the strong partnerships that we have developed, but reflects the changing financial landscape, focuses on residents who are newly at risk of financial exclusion and seeks to address the new challenges that many residents are facing. This Strategy will support individuals and families to overcome the barriers they may face to financial inclusion. It will also contribute towards the Council's Pledge that '*Every resident will have access to free money and debt advice and affordable credit*'. We are confident that by working cooperatively we can create a Borough where more residents are financially secure.

## About the Financial Inclusion Forum

Knowsley has worked hard over the last 6 years to establish strong partnerships across a range of services and organisations, all of which have a role to play in tackling financial exclusion.  These partnerships have grown through the Knowsley Financial Inclusion Forum and the Knowsley Financial Inclusion Advisory Group. The Forum was set up in 2007 to develop and deliver a coordinated, strategic response to issues of financial exclusion. It benefits from the strengths, expertise and resources of a range of services and organisations involved in housing, employment, energy efficiency and health (see Appendix 1 for all member organisations). The Knowsley Financial Inclusion Advisory Group is a 'virtual' group of community and public sector organisations that share information and best practice.

## Vision

The following vision sets out what we want to achieve through our Financial Inclusion Strategy and is built around five objectives**:**

| Vision | | | | |
| --- | --- | --- | --- | --- |
| **"Knowsley - a place where residents have the choice and skills to access the most appropriate financial services and products"** | | | | |
| Build financial capabilities through financial education | Plan and respond effectively to the welfare reforms | Increase access to appropriate financial services and affordable credit | Increase access to money and debt advice | Promote savings, assets and insurance |

## Scope of the strategy

In summary this strategy:

- Defines financial exclusion and the new challenges that have emerged as a result of the financial crisis
- Identifies who is most vulnerable to financial exclusion in Knowsley, including those newly affected by the credit crunch and recession
- Is supported by a comprehensive evidence base which will be used to highlight local issues and challenges to central government and other stakeholders
- Establishes a number of guiding principles that will influence our actions
- Highlights the outcomes we want to achieve and how we will measure progress

The strategy also provides a framework for Knowsley Council's strategic commissioning process. From April 2013, Knowsley will have one consistent approach to commissioning across the council. This means that priorities will be set according to need and must be delivered effectively within the reduced resources available. The strategic commissioning process will take into account the financial inclusion needs identified in this strategy and the outcomes it wants to achieve.

## What this strategy means for residents and partners

We are confident that successful implementation of this strategy will deliver positive outcomes to people and families. In turn, this will lead to more efficient and effective services.

### Outcomes for people and families

- More residents have the skills to budget and manage bills effectively
- Fewer residents have unmanageable debts
- More residents are able to access affordable credit and the most appropriate financial services
- More residents are equipped to deal with the welfare reform changes
- More residents have the ability to build up savings and assets and access appropriate insurance products

### Benefits to public and voluntary sector organisations

- Less dependency and demand for services such as money advice, debt management and homelessness support
- Improved cash flow through fewer council tax and rent arrears, failed tenancies and evictions
- More efficient payments through direct debits and online payments
- Reduction in child and family poverty
- Improved resilience within communities
- Increased investment in the local economy – through reducing the amount of money spent on high cost credit
- Improved customer satisfaction and better outcomes for residents

## Strategy principles

Building on the learning from the previous Financial Inclusion Strategy, we have agreed five guiding principles that will shape our actions going forward:

**Behaviour change** – the strategy will promote changes to the behaviours of individuals, organisations and financial services where it can a have positive impact
**Prevention** – provide the right tools, information and services to prevent people from becoming financially excluded
**Sustainability** – build the skills and confidence of individuals so they are able to determine the best routes out of financial exclusion and to stay out of financial exclusion

**Co-operation** – utilise the strengths and assets of a wide range of individuals, community groups and organisations to achieve the shared outcomes in this strategy. The strategy and action plan will also provide a means for coordinating activities and sharing best practice.
**Targeted and tailored** – interventions will be targeted towards those who are most vulnerable to financial exclusion as identified through this strategy. Intervention will also be at recognised trigger points for financial exclusion and in a format and time that is appropriate to resident needs.

## Part of a bigger picture

Promoting financial inclusion also underpins and directly supports a number of key local policies:

**Strategy for Knowsley** - Knowsley Council and its partners have signed up to '*Strategy for Knowsley*'. This is a 15 year strategy that sets out a long-term ambition to establish Knowsley as a 'Borough of Choice', where people and families want to live and in which businesses want to invest. This Financial Inclusion Strategy supports the long term aims of the 'Strategy for Knowsley' by helping to build the sustainability and economic resilience of our communities.

**Knowsley pledges** - On a short to medium-term basis, the council has made a number of pledges on issues that it believes are critical to achieving the longer term aims of *'Strategy for Knowsley'.* This strategy will directly support the achievement of the pledge to improve access to advice:

*"Council pledge - every resident will have access to free debt and money advice and affordable credit"*

The Financial Inclusion Strategy will also have a role in supporting the pledge to increase employment:

*"Council pledge - we will put 10,000 Knowsley residents into long term jobs"*

It will do this by tackling over indebtedness which can act as a barrier to employment, improving access to bank accounts which is a basic requirement for most employers and building financial capability which can help people to make the transition from benefits to employment.

**Family Policy** - Knowsley contains too many families that are living in 'just coping' circumstances. 'Just coping' families often live on the edge of their means and it would take little more than one trigger event to tip them into a vulnerable situation. These families have been particularly affected by the financial crisis and economic downturn. They are vulnerable to labour market weakness and have been hit hard by fuel and food price rises, as they spend a large proportion of their disposable income on these essentials. Family policy is about delivering an escalator of support whereby public services organise themselves and deliver services in ways which avoids dependency and supports social mobility, enabling 'just coping' families to 'cope' and 'thrive'. This Financial Inclusion Strategy will promote approaches that builds the financial capabilities of 'just coping' families to enable them to become more thriving and avoid falling into crisis situations.

## Strategy engagement

Our strategy has been developed cooperatively, involving a range of public, private and third sector partners. Engagement activities include several Financial Inclusion Forum meetings, a consultation workshop for our local third sector partners including credit unions and money advice agencies, and on-going communication with local strategy delivery partners. The strategy has also benefited from the insights of over 1,700 residents who took part in the Money Matters and Knowsley Opinion Tracker surveys. The document also incorporates the findings and recommendations of the Scrutiny Working Group in-depth review of ‘Partnership Working in Personal Debt Support’, which was carried out under the ‘Policy and Resources’ theme. The review concluded in January 2012 and the working group’s recommendations were endorsed by Cabinet in March 2012. Appendix 2 acknowledges those who have played an important role in the development of the strategy.

# Understanding financial exclusion

## A definition of financial exclusion

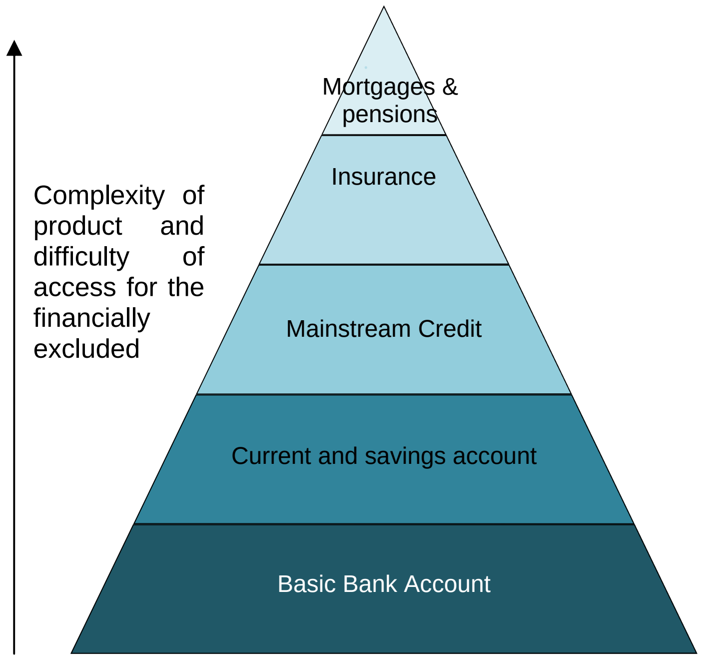
In simple terms, financial exclusion is a person's inability to access appropriate and affordable financial services and products, for whatever reason. These services and products include:-

- Bank accounts and other financial products
- Affordable credit
- Savings and assets
- Insurance
- Debt and money advice

The term financial exclusion is used in different ways. It can refer to a lack of access to a range of financial services, or relate to particular circumstances such as geographical exclusion, exclusion on the grounds that charges and prices are prohibitively high or exclusion from marketing efforts. Self exclusion and lack of confidence is also an important issue. This can occur when an individual believes there is little point in applying for a financial product because they expect to be refused. Self exclusion is often not a deliberate choice - many people do not have the information, knowledge or skills that they need to be able to make informed and confident decisions about their finances.

Financial exclusion is not absolute; people can experience varying degrees of exclusion. The diagram to the right illustrates the accessibility of key financial products to the financially excluded. Products lower down the triangle are the most basic and are often seen as 'gateways' to other services.

Living without access to the right financial products is a significant disadvantage in an age where cash is being replaced by debit cards and automated transactions and can mean that individuals have to pay more for basic services. Having no insurance exacerbates the effects of theft and accidental damage or loss of property. Outside of mainstream financial products, saving options can be informal and unreliable. Discounts on utility bills for paying by direct debit are inaccessible. Affordable short-term credit is replaced by sub-prime lenders offering credit on Annual Percentage Rates (APRs) that often exceed 100%, or by pawn brokers and loan sharks. Being financially excluded costs money and it is often those who can afford it least who pay the price.




(Source: New Philanthropy Capital)

# Causes of financial exclusion

The causes of financial exclusion can be explained under two headings; **Institutional factors** - relating to the design and delivery of financial products and services and **Individual factors** - relating to the choices, behaviours and circumstances of consumers. The table below summarises some of the key problems.

| Institutions | Individuals |
| --- | --- |
| • Digital exclusion - developments like internet banking have excluded those who cannot afford technology or do not have the skills to use it. 19% of Knowsley residents are digitally excluded.<br>• Geographical exclusion - no local bank or affordable mode of transport reduces access to financial services. In Knowsley there are at least 12,500 households without access to a car. The borough is well served by a public transport network, however fares more than doubled in the last 10 years. Car owners have also been affected by a 38% rise in the price of petrol since 2007.<br>• Price exclusion - affordability of products such as insurance and penalty charges on mainstream bank accounts disadvantage those on low incomes. Local survey data shows that the cost of insurance is a key financial concern for 18% of residents.<br>• Marketing exclusion - some less 'profitable' customers are not targeted by providers of financial products so they may be unaware of financial services available. This is particularly worrying as high interest payday lenders are becoming increasingly visible on many high streets. There are 11 payday lenders operating in Knowsley.<br>• Condition exclusion - credit scoring has become based on automated assessments of socio-economic factors. The local index of multiple deprivation indicates that Knowsley contains some of the most socio-economic disadvantaged communities in the country. | • Low financial capabilities - some people lack the right skills to make effective decisions and manage their budget. Local survey data suggests that 'budgeting' is one of the main financial concerns of Knowsley young people under the age of 24.<br>• Low levels of awareness and understanding of products - people may not have the right knowledge or resources to identify the best product for their financial circumstances.<br>• Low levels of financial confidence - this refers to self exclusion from financial services due to a belief that a service is 'not for people like us'.<br>• Poverty / low income - this reduces the money available to buy products and can also drive up the cost of buying certain services (for example people on low incomes often live in the most deprived areas and can be more vulnerable to crime, this drives up insurance premiums). 32% of Knowsley children are growing up in a household that is defined to be in poverty.<br>• Financial abuse – this is one form of control used by perpetrators of domestic abuse. It can take a variety of forms including denial of access to finances and pressure to incur debts. |

It is difficult to pinpoint the single most dominant cause of financial exclusion, often a combination of institutional and individual factors work together to create a complex set of barriers. For example, there could be a young person who has grown up in a household where money has always been scarce. They want to buy their first car to increase their chances of finding a job but are refused a loan from the bank. A close family member suggests using the local door step lender, the young person takes out a loan at 500% interest.

Another scenario could involve, a working couple with relatively good access to financial services. They have a mortgage for their home, a bank loan for their car and various store cards. The husband is unexpectedly made redundant but he is confident that he will quickly find new work. His wife takes out a new loan with a bank to tie them over with the bills and debts. Six months in, the husband is still struggling to find work, they are at risk of losing their home, and they are refused further finance from mainstream lenders to make ends meet.

## Defining over-indebtedness

Over-indebtedness or 'problem debt' is an integral part of the financial exclusion picture. It can be a consequence of financial exclusion and also play a part in causing financial exclusion, for example through damaging a person's credit rating. Over-indebtedness is closely linked to low income and is generally measured by reference to a combination of indicators including household debt-to-income ratios, the number of commitments, the value of arrears and subjective measures (i.e. whether individuals declare the debt themselves as a 'heavy burden').

Problem debt can be triggered by a major life event or change in circumstances. The most common triggers are losing a job or constantly moving in and out of work, separating from a partner, suffering a bereavement, becoming ill or developing a disability, or having children. Following this trigger, some people fall into debt, while others cope. A range of factors can influence whether a trigger results in a debt problem, such as:-

- Financial capability and confidence
- Access to savings or other sources of income
- Availability of money and budgeting advice
- Access to affordable credit
- Irresponsible or illegal lending
- Administration or entitlement difficulties (in relation to welfare benefits)

An important part of our strategy is to provide support services at key trigger points to prevent people and families from becoming over-indebted. In addition, the strategy will ensure that those in financial difficulty have access to free money and debt advice to prevent any debt from escalating.

As may be expected, poorer households have a disproportionate share of people experiencing over-indebtedness. However, the 'global credit crunch' in 2008 which followed a sustained period of readily available credit, has seen a worrying number of low to middle income households accumulate unmanageable levels of personal debt. In the run up to 2008, many people were actively encouraged to make use of credit, and many creditors made weak attempts to assess whether customers were able to make repayments. This led to a culture of easy borrowing, where credit use became the norm. Knowsley, along with the rest country, now faces a major challenge in repaying the debt that has been accumulated. Over the last two years, Knowsley residents have presented to money advice agencies with debts totalling £25,930,400. Converting from a debt culture to a savings culture will not be easy, but without action, the debt will continue to act as a drain on household income. The case study below describes the situation of a Knowsley family who found themselves with unmanageable levels of debt. This scenario is unfortunately not unique.

**Michelle and Peter's Story**[1]

Michelle and Peter are married with three children, aged 1, 6 and 10. They live in Halewood with a 110% mortgage. Peter works full-time and earns £18,000 a year; Michelle used to work full-time but she reduced her hours due to high childcare costs.

The couple accumulated large and unmanageable credit card debts. With no means of meeting the repayments they entered an Individual Voluntary Agreement (IVA), a government scheme that helps people in debt, by agreeing a single monthly payment based on affordability.

Michelle and Peter continued to struggle financially despite the IVA. They could not afford school dinners for their children or to pay for after school clubs. Michelle and Peter also fell behind on the monthly £1100 mortgage payments, resulting in mortgage arrears. Any additional income that they earned through overtime was taken as part of the IVA. If they failed to maintain control of their finances and keep up with IVA payments they were told that they could be made bankrupt. Due to the nature of Peter's employment, bankruptcy would result in him losing his job. Michelle and Peter asked the mortgage company to extend the length of the mortgage loan but they were refused and the company instigated court proceedings to evict Michelle and Peter from their home.

Michelle and Peter's parents and grandparents stepped in and helped them to pay the mortgage debts and the IVA balance. Their family have used their savings and pension to do this which has affected their long-term financial security and sadly their relationship.

[1] The names of those involved have been changed to protect the identity of those involved.

# Who is affected by financial exclusion?

The numbers affected and the consequences of being financially excluded have changed in recent years. This is due to a combination of factors including the economic downturn, welfare reforms and greater restrictions to credit as a result of the global financial crisis.

Those from poorer households, who were already at risk of financial exclusion, have been particularly exposed to the changes. For example, they are more vulnerable to labour market weaknesses, more acutely affected by inflation and are more likely to have difficulties in accessing credit as lenders take a tougher attitude to risk. At the same time, new groups of financially excluded households have started to emerge. Households with high loan-to-value mortgages[2] and high debt costs are a cause for concern.

The following table summarises who is most at risk of financial exclusion. Appendix 3 provides further details on the challenges that these groups may face over the next three years and beyond.

It is important to highlight that people and families are unique and their resilience to financial exclusion will differ depending on a range of protective factors including levels of financial capability and confidence and personal savings. Therefore, those with 'risk characteristics' may in fact be financially included. However, the table does provide partners with some indication of who may experience some difficulties based on the findings from local consultation exercises and extensive national research studies.

| Characteristic | Estimated numbers 'at risk' in Knowsley |
|---|---|
| **Tenants of Registered Providers** | **18,000** households in social housing |
| **Mortgage holders with high LTVs[1], debt servicing costs** | **26,000** households have a mortgage |
| **Private renters with low or unstable income** | **3,900** households are privately renting |
| **People in work and on a low income** | **6,400** households receive Working Tax Credits |
| **People claiming out-of-work benefits** | **21,810** residents claim key-out-of-work benefits |
| **Single parents** | **2,760** lone parent benefit claimants |
| **People with physical disabilities, learning disabilities or difficulties, and mental health problems** | **24,500** people are estimated to be disabled |
| **Young adults under 24** | **15,272** residents aged 18-24 |
| **Older people over 65** | **23,275** residents aged over 65+ |
| **Victims / survivors of domestic abuse** | **1 in 7** adults are estimated to be victims of domestic abuse |

[2] Loan-to-Value or LTV refers to how much mortgage someone has in relation to how much their property is worth. Often, first time buyers will not have a lot of money to put down as a deposit, meaning that their **loan-to-value** is quite high. Since the credit crunch some people have found themselves in negative equity as they took high loan-to-value mortgages (sometimes exceeding what their property was worth) then found that their property price went down.

It is an unfortunate reality that more and more people could find themselves in challenging financial situations; ultimately leading to exclusion. Those with several ‘at risk’ characteristics, for example; a single parent who is a RSL tenant and also has disabilities, could be particularly hit hard by a multitude of financial problems. The challenge for this strategy is to ensure that interventions support those traditionally at risk of financial exclusion, and also that the right support is available to address the needs of new emerging groups to prevent any problems from escalating.

# Impacts of financial exclusion

Financial exclusion has a significant impact, and imposes substantial costs, on the individual, the wider community and society as a whole. These in turn contribute further to financial exclusion, often making it a self-perpetuating cycle.

For the individual **these can include:-**

- **Higher charges for basic financial transactions –** lack of access to a bank account means that certain financial transactions, such as money transfer and cheque cashing, may be more expensive.
- **No access to affordable credit** - high interest lenders and doorstep lenders are successful because they meet a need among low-income groups for loans at a low weekly cost. However, a six month loan from a doorstep lender can typically have an Annual Percentage Rate of more than 200%.
- **No access to certain products or services –** services, such as contract mobile telephones, require a bank account for regular Direct Debits.
- **Lack of security in holding and storing money** – operating solely on a cash budget leaves people more vulnerable to loss or theft.
- **Barriers to employment** – a bank account for receipt of wages is a basic requirement for most employers.
- **Poor mental health and wellbeing** - financial exclusion and indebtedness are key causes of stress and over time this can impact on mental health.
- **Entrenching exclusion** – having no formal banking or credit history at all can be as much of a disadvantage as an impaired credit history in accessing certain financial services.
- **Barrier to leaving an abusive relationship** - financial abuse can prevent victims /survivors from establishing financial independence.

**For the wider community and neighbourhoods**, there are further additional costs:-

- **Contributor to child poverty –** families in poverty are often forced to rely on high-cost credit, pay more for services as they may not have a bank account to pay by direct debit and find it difficult to access cheap goods; for example bulk buy purchases at supermarkets. This ‘poverty premium’ is estimated to cost an average family £1,280 per year (Save the Children 2011) and is a major barrier to escaping poverty.
- **Costs to the benefit system** – the welfare benefits system aims to provide a minimum standard of living for individuals. If benefit claimants are forced to use high cost credit, this benefit is available for other essentials, leading to applications for discretionary local support.
- **Worklessness** - debt is widely recognised as a barrier to work. High levels of resident debt can often undermine wider efforts and investment to reduce overall worklessness levels. The cost of starting work can, in itself, be prohibitive, as can ‘bridging the gap’ until the first pay cheque.

- **Re-offending** - ex-offenders are more likely to have problems with rent arrears, unpaid bills and fines than the population as a whole. Debt and money advice is a recognised pathway to prevent re-offending. There are around 1,000 ex-offenders working with Knowsley probation service. Assessments of this cohort indicate that a quarter will be at risk of financial and / or accommodation issues.

- **Public purse** - financial exclusion can contribute towards issues such family breakdown, homelessness and crime. This puts additional pressures and demands on a wide range of public services.

- **Local economy** – predatory lending strips out money from communities. People are paying off interest, often at extortionate rates, rather than using their income in local shops.

## Financial exclusion - the everyday reality

The following case study describes the situation of a Knowsley family[3] who took part in an ethnographic research study (May 2010). The story gives an indication of the day-to-day challenges experienced by families living in 'just coping' circumstances. In this example, debt was driven by unemployment and low awareness of financial products.

***Zia's Story***

*Zia is 32 years old. She is a single parent with one child; a two year old son named Max. Zia has never had a lot of money. She left school young but went and studied to become a beauty therapist for three years. She spent a year looking for a job, taking her qualifications and looking everywhere for employment but found nothing.*

*Now Zia does not have much money at all and has virtually no disposable income. She receives income support, child benefit, and child tax credits as well as full housing benefit. She also receives £5 a week from her child's father. She has debts that she can, just, manage but they are troublesome nonetheless and certainly go a long way toward mopping up any spare cash she might be able to save. She owes £1300 to a catalogue company which she bought furniture for her house from. She has an £825 credit card bill and she owes £460 to Argos, also for furniture she bought. She also owes £300 in rent arrears which she says arose from a misunderstanding during her maternity period.*

*Zia states that she is careful with money and she only went in to debt to finance the purchase of essentials: a bed, a sofa, a new washing machine etc. She is worried that people will think she is bad with money: "It's horrible for people on benefits you know. People think you are lazy or whatever…" One of the things that Zia feels most guilty about is the food she has to buy. "People say that buying healthy food is cheap but they are wrong...". Max eats a lot of crap. I know that. But I can't afford any more and I shop at the dirt cheap places."*

*In order to address some of her debt problems, Zia took a loan from a local small loans provider. She says that they are well known and trusted, even if not liked, in the area. Lots of her friends and neighbours have taken out loans with them. However, the repayments are high. She borrowed £300 and will now have to repay £525. Soon after getting this loan she was walking through the town centre and picked up a leaflet from the Credit Union ("I used to just put their stuff in the bin! It looks like any of the other loans people except I don't know them do I?") She now realises how unfair her terms are from the local loans company and trusts the Credit Union. Learning the lesson however has left her with a new kind of debt problem.*

[3] The names of those involved have been changed to protect the identity of those involved.

# Developing solutions

## What we need to focus on

The causes of financial exclusion are driven by both **institutional** factors such as the design and delivery of financial products and services and **individual** factors such as the choices, behaviours and circumstances of consumers. We recognise that at a local level, there is more that we can realistically achieve by tackling the individual factors that contribute to financial exclusion and this is where most of our actions will be focused. But, where there is potential to change institutional factors, perhaps through lobbying for improvements to the way the financial services market works or by enhancing the supply of financial services through credit unions, we will incorporate these into our approach.

## How we will do it - behavioural change

Our specific actions will promote changes to the behaviours both of institutions and individuals where it can have a positive impact. The principles of behaviour change can be summarised as the 4E's - Educate, Encourage, Empower and Enforce. Some examples of how these principles will be applied in practice include: **educating** residents through free money advice to improve budgeting skills, **encouraging** utility companies and financial services to improve their offer to low income residents through communications and campaigns with City Region partners, **empowering** credit unions to grow and expand services through operational and infrastructure support and **enforcing** regulations and legislation to remove illegal money lenders.

## How our solution fits together

<table>
<tr><th>Causes of financial exclusion</th><th colspan="4">Interventions</th></tr>
<tr><td>Individual - related to people and families</td><td rowspan="2">Educate<br>Inform<br>Advise</td><td rowspan="2">Encourage<br>Support<br>Persuade</td><td rowspan="2">Empower<br>Coach<br>Mentor</td><td rowspan="2">Enforce<br>Regulate<br>Control</td></tr>
<tr><td>Institutional - related to those that influence and deliver financial products and services. This could include government, banks, payday lenders, insurance providers, utility companies and credit unions.</td></tr>
</table>

**Achievement of Strategic Objectives**

The following case study demonstrates one successful example of how partners in Knowsley are working together to tackle financial exclusion using behaviour change principles.

**Case study: Supporting lone parents to overcome barriers to employment through education and empowerment**

The lone parent project was set up to help address the barriers that lone parents face to taking up employment.

**Partners and funding**
The project was led jointly by Knowsley Council's Benefit Service and Job Centre Plus (JCP).

**Aims**
Partners observed that despite a wide range of schemes and incentives to support lone parents into work and training, a large proportion of parents still failed to sustain employment and generally returned to benefits. Debts incurred during the break in benefit entitlement left many people in a worse position than before employment started and even more reluctant to engage in future work related activity. This project aimed to ease the transition from full benefit dependency into employment by:

- Signposting customers to budgeting advice and encouraging the use of direct debits to help customers manage household payments that were previously covered by out-of-work benefits
- Improving the accuracy of 'in-work' benefit calculations to empower customers to make informed choices relating to their future employment
- Increasing the speed at which 'in-work' benefit claims are calculated through better information sharing between the council's Benefits Service and Job Centre Plus (JCP)

**Impact**

- Lone parents that sustained employment increased by 48%
- Fewer lone parents accrued rent arrears
- Queries and complaints made to JCP lone parent advisers significantly reduced

## The tools and assets that will help us

Some Knowsley residents will face considerable financial challenges over the next three years. We will draw on our key assets, tools and strengths to support residents to take control of their financial future.

**Credit Unions** - Credit unions provide saving facilities and many offer low cost loans. Some also offer basic bank accounts and insurance products. They play an important role in tackling financial exclusion as they are available to members who may not be able to access these services from mainstream providers. Knowsley is home to four well established credit unions. Knowsley Mutual Credit Union and Enterprise Credit Union offer services to all Knowsley residents and there is also Southdene Credit Union in Kirkby and Halewood Community Credit Union. In addition, people who live and work in Knowsley can also opt to join Partners Mutual, which serves the whole of Merseyside.

**Experienced local advice agencies** - In support of the council's pledge to provide all residents with free money and debt advice, the council commissions advice through four local agencies. Borough-wide debt and general advice is provided by Knowsley Citizen's Advice Bureau through their network of offices (Huyton, Kirkby, and Halewood), KUC Ltd, Prescot and Whiston Advice Centre and Huyton Advice Centre provide services to residents across Kirkby, Prescot and Huyton respectively.

**Knowsley Financial Inclusion Forum** - No one organisation or agency can provide the depth and range of services that are needed to tackle financial exclusion. That is why the Knowsley Financial Inclusion Forum was set up in 2007. The forum delivers a co-ordinated and strategic response to issues of financial exclusion and benefits from the expertise and input of many member organisations including Knowsley Housing Trust, Department for Work and Pensions (Job Centre Plus and Pensions Service), Public Health, United Utilities, National Energy Action and a range of Knowsley Council services, including Children's Centres. The case study on the following page gives an example of the excellent partnership work that is already underway and the positive impact it is having.

**Complimentary strategies and programmes** – As previously highlighted, financial exclusion is not a standalone issue. It can be both a driver and consequence of many other factors such as unemployment, poverty, homelessness and ill health. For example, we know that reliable and well paid employment increases the likelihood of financial security and inclusion. Therefore, the council's pledge to support 10,000 Knowsley residents into long-term jobs should have a positive impact on people's ability to access mainstream financial products. Appendix 4 details the interdependent activities that run alongside this strategy.

**Liverpool City Region Financial Inclusion Forum** - Knowsley is also represented on the Liverpool City Region Financial Inclusion Forum. The purpose of the forum is to better link the work carried out on financial inclusion across the City Region and to raise the profile of the issue. It provides Knowsley with opportunities to share best practice and a collective to hold providers of financial services to account.

**Case study: Working together to boost financial inclusion and tackle illegal lending**

Shop a Shark provides support, advice, protection and alternative sources of finance to help people avoid and defeat illegal, doorstep lenders.

**Partners and funding**

Shop a Shark is run in partnership by Knowsley Housing Trust and the Illegal Money Lending Team which has a long-term agreement with the council's Trading Standards Service to investigate all loan shark activity in the borough. The project also works closely with community based credit unions, schools, children's centres and local advice agencies.

**Aims**

Knowsley is particularly vulnerable to the corrosive activities of illegal money lenders due to high levels of deprivation. The project helps residents to manage their rent and other finances by diverting and protecting people from illegal lenders. The project also supports local credit unions through direct funding and savings via staff salary deductions.

**Impact**

- By enabling people to switch from high-interest doorstep lending to local credit unions, Shop a Shark has saved residents an estimated £166,000 in loan charges.

- One high profile illegal money lender who charged interest at rates varying from 886% to 131,000% has been convicted, leading to loans to more than 150 Knowsley residents being written off.
- The number of tenants evicted for rent arrears by Knowsley Housing Trust fell to its lowest level in six years.

# Objective 1: Build financial capability through financial education

### Why it is important

Building financial capability is about providing people with education, information and advice to make financial decisions with confidence and providing opportunities for individuals to take greater control of the financial decisions that affect their lives. It can help to shape attitudes and beliefs towards debt and rebalance the powerful influences of high cost credit marketing campaigns. In particular, targeted work with young people and those at risk of financial exclusion can provide a long-term investment as it can help to prevent issues of exclusion from occurring. Therefore, building financial capability is an essential part of our sustainable solution.

### What do we know

- Individual Insolvency is an umbrella term for bankruptcy, debt relief orders and individual voluntary arrangements. It is often the last resort for those experiencing overdebtedness. In Knowsley, there were 353 individual insolvencies in 2011 which means a higher-than-average rate than the national levels. Over a third of these insolvencies were bankruptcy orders.
- General numeracy and literacy levels have a major influence on financial capabilities. Using a national comparison, it is estimated that Knowsley has around 14,250 residents with below level 1 literacy. Adults with skills below level 1 may not be able to read and understand wages slips. Using the same methodology, it is estimated that 24,000 residents with below entry 3 in numeracy. Adults at this skill level may not understand price labels or household bills, never mind credit agreements or loan terms.
- Local survey data suggests that ‘budgeting’ is one the main financial concerns for young people under 24.
- 93% of residents believe that pupils at school should receive education relating to personal finances (such as advice on opening a bank account and household budgeting)

### Current and emerging risks

- In Knowsley, ‘Right to Buy’ (RTB) customers have significantly increased. If the level of interest in the scheme remains consistent, Knowsley could expect to see over 500 RTB sales for 2012-13. However, Right to Buy customers are deemed as being at particular risk of falling into significant debt and are highlighted as the group most likely to experience repossession. Merseyside Homebuy agent indicates that 30% of all mortgage rescue claimants are for residents who purchased through Right to Buy / Right to Acquire. Proactive support to help this group budget and plan for the long term may prevent families from falling into crisis situations in the future.
- Health and social care reforms such as direct payments are giving individuals more control over their care budget. There is a risk that this national policy, which has been designed to increase choice, could have a negative impact on vulnerable people who do not have the right skills to decide how the budget is best managed and allocated.

### Opportunities

- Knowsley has been successful in a partnership application to the Big Lottery’s ‘Improving Financial Confidence’ fund. The fund covers a five year period and will be used to fund three full-time ‘Money Buddies’ to work with social tenants aged 16 – 24, new tenants and those moving in and out of work. Building financial capability will form an important part of this work.

## To Build Financial Capability we will:

### Actions at an Individual level

Educate

- Embed financial capability in primary schools, secondary schools, colleges, and employment provision as appropriate. To support this action a schools' representative will be invited to join the Financial Inclusion Forum
- Provide targeted and tailored education, information and advice to those who are taking on new financial responsibilities (for example, tenants, mortgage holders and those with a personal care budget)
- Continue to provide information on budgeting and managing finances through a variety of formats that is appropriate and accessible to residents

Empower

- Build the financial confidence and capabilities of residents, particularly those at risk of financial exclusion, through schemes such as the Big Lottery Fund 'Improving Financial Confidence' programme.

### Actions at an institutional level

Encourage

- Encourage the banking sector to work with us to early identify and signpost individuals in need of money skills and advice

# Objective 2: Plan and respond effectively to the welfare reforms

## Why it is important

The welfare and benefits system is undergoing radical reforms. For many residents, the changes have meant a reduction in the amount of benefit they receive and an increase in benefit conditionality. However, some of most significant changes are yet to come into effect. In 2013, Universal Credit (UC) will be introduced which will transform the way that benefits are paid, and further reductions will impact on support such as council tax benefit and housing benefit. These reforms will impact most on 'just coping' families in Knowsley, who are already experiencing the pressures of inflation and rising fuel costs. Therefore, our strategy will be proactive and help families to prepare and adapt to the changes.

## What do we know

- Knowsley has historically higher than average rates of out-of-work and low income households.
- Around 23% of the borough's population are classed as workless and claim a key DWP 'out-of-work-benefit'. This accounts for almost 22,000 people in total.
- 6,400 working households are on a low income and receive some form of working tax credit to top-up their wages.
- Welfare reform is a major concern for these groups and is likely to further exaggerate their existing issues; making them more financially vulnerable and likely to need assistance.

## Current and emerging risks

- Universal credit will be rolled out from October 2013. It will merge all means tested benefits and tax credits into a single payment. The system has been designed as 'digital by default'. This means that claimants will be required to claim UC online and report changes as they would do with online banking. The government has set a target for 80% of applications to be online by 2017. The system poses several risks for residents. Firstly payments will be made monthly rather than weekly, there is a risk that some residents will find it difficult to manage their finances across a month long period. Housing benefit will also form part of UC and be paid directly to tenants rather than to their landlord. Tenants with low financial capabilities could struggle to make payments, leading to rent arrears and potential evictions. Added to this, 52% of unemployed people in Knowsley do not use the internet. If residents are not given the opportunity to interact digitally, there is a danger that Universal Credit could increase financial exclusion.
- Council Tax Benefit (CTB) will be abolished from April 2013. Instead local authorities have been instructed by the government to establish individual local Council Tax support schemes. At the same time, the government will cut the amount available to fund Council Tax support by at least 10%. The council is currently consulting on proposals for its local scheme. Whilst the council remains committed to providing support for our most vulnerable residents, in light of the government's funding cuts, it is unavoidable that some groups of people will see a reduction in the financial support available. Pensioner households won't be affected by the changes to Council Tax Benefit but people who are of working age and who currently receive Council Tax Benefit are likely to have to pay more.
- From April 2013, welfare benefits entitlement advice will be removed from the legal aid contract. The amendment retains only legal aid for people with complex welfare benefits issues, where they are challenging government decisions. It does not include the more general help (for example with form filling) which currently falls under legal aid and mainly delivered by not-for-profit advice agencies such as the Citizens Advice Bureau and local advice agencies. This comes at a time when changes to claim procedures, entitlements and payment frequencies is likely to cause a surge in demand for benefits advice.

- Knowsley residents, will also be some of the first affected by the introduction of Personal Independence Payments which will replace Disability Living Allowance, as Merseyside will be a pilot area from April 2013.
- In all, the combined impact of the welfare reforms (see Appendix 3 for details) could result in increased levels of personal debt, evictions and have a detrimental impact on the health and wellbeing of the most financially vulnerable.

## Opportunities

- From April 2013, some discretionary elements of the Social Fund (Community Care Grants or CCGs and Crisis Loans for general living expenses) will be abolished and will be replaced with a locally based service devolved to local authorities. A new national scheme will replace alignment Crisis Loans and Budgeting Loans. There will be risks to ensuring that any local scheme introduced to replace CCGs and Crisis Loans provides effective support, however it also presents opportunities. The council and its partners, including third sector organisations, are well placed to identify those who are in genuine crisis and in need of support.
- Efforts to prepare residents for Universal Credit through digital inclusion will deliver additional benefits. For example, digital access can increase job prospects as 46% of local jobs are advertised exclusively online and 90% of jobs require some IT skills.

## To plan and respond effectively to the welfare reforms we will:

### Actions at an Individual level

Educate

- Raise awareness of forthcoming welfare reform changes. This will include:
  - Identifying and contacting those who will be affected by future reforms to help them plan and manage the changes
  - Providing regular briefings to front line staff to help them advise and signpost residents accordingly
- Provide benefits information and advice to ensure that residents are claiming all the benefits that they are entitled to
- Support residents to budget through financial education and by raising awareness of money management (or 'Jam Jar') accounts offered by some credit unions

Empower

- Support more people to become digitally included (particularly those who will be affected by Universal Credit), through the work of 'Digital Knowsley'

### Actions at an institutional level

Educate

- Work with partners such as the City Region Financial Inclusion Forum to monitor the impacts of the welfare reforms and inform government of any local issues and challenges

# Objective 3: Access to appropriate financial services and affordable credit

### Why it is important

Families who are 'just coping' have historically experienced difficulty in accessing affordable credit and even the most basic banking services. The recent credit crunch has made access to services even more difficult for many families as financial institutions have placed greater restrictions on a range of products. This means that many day-to-day tasks such as paying bills, transferring money and accessing credit have become increasingly difficult and expensive. Credit can be a useful part of everyday life, for those who are 'just coping', a cheap and accessible loan can help to smooth finances in cases of emergency. There is a real danger that credit restrictions, will make this group more vulnerable to aggressive marketing by high cost lenders and worse, illegal loan sharks. This is why access to appropriate financial services and affordable credit forms a key part of our strategy which, will be complemented by efforts to raise financial capabilities. This will help to ensure that those with access to services are able to use products such as bank accounts effectively, without incurring unnecessary penalties and charges.

### What do we know

- It is not possible to obtain details on the number of residents with a bank account. However information on the payment method for Council Tax, suggests that not all Knowsley residents use current bank accounts on a regular basis for paying bills, with some choosing to pay in cash, presumably, as a way to better manage their short-term budgets.
- Bus transport is critical for many people in ensuring good access to financial services such as banks and cash points. However, affordability remains an issue. Bus fares on Merseyside have more than doubled over the last 10 years.
- Accessing accounts online is an increasingly useful method of banking, but 19% of adult residents in Knowsley have never accessed the internet. These residents are also excluded from internet only discounts offered by utility companies, retailers and banks. It is estimated that households can save £560 per year by shopping and paying bills online.
- When it comes to borrowing money, survey data shows that 4 in 10 people would turn to friends and family. A similar number would turn to banks and building societies. 1 in 10 would turn to a credit union. Another local survey suggests that, 1 in 20 residents have used a loan shark at some point.
- Credit unions can offer an effective alternative to high cost credit to many low income households. Based on available data, we know that there are at least 10,000 credit union members in Knowsley. Average loans are around £630 per account while the average savings account is worth around £400.
- Local survey data shows good awareness of credit unions across the borough, however it is weaker amongst the over 60's.
- The practices of some utility companies can be unfair and penalise those who do not or cannot pay by direct debit. Almost a quarter of Knowsley households are in fuel poverty, this means that they spend more than 10% of their household income to heat their home. The 'cost of utilities' was also highlighted as a concern by half of all residents who took part in a local survey.

### Current and emerging risks

- In recent years there has been a rise in payday lenders operating in Knowsley and other towns and cities. Concerns have been raised that some payday lenders may be taking advantage of people in financial difficulty. This has prompted the Office of Fair Trading to conduct a national review into the compliance of payday lenders. There are 11 such businesses operating in Knowsley.
- Communities in Knowsley have benefited from the work of the North West Illegal Money Lending Team. However funding for this service is due to end in March 2014. This comes at a time when many people will already be financially vulnerable.
- The welfare reforms are putting increasing responsibility on claimants to manage their benefit. RSL tenants will need to allocate money to pay their rent and it is likely that some low income groups will have to contribute towards their council tax. Direct debits can provide an effective way to make payments, but local information suggests that some Knowsley residents (particularly vulnerable groups) do not use a bank account. This could lead to more residents experiencing debts and arrears, as well as financial losses to public services that are already under pressure.

### Opportunities

- Knowsley is home to four well-established credit unions. A recent DWP review has found that credit unions have the potential to provide low income households with a realistic alternative to mainstream banking services. However, the DWP suggest that credit unions need to work more collaboratively, modernise and expand their offer to customers in order to become financially sustainable and provide the necessary services. DWP has agreed to invest £38 million over the next three years to help implement its recommendations.

## To increase access to financial services and affordable credit we will:

### Actions at an Individual level

#### Educate

- Raise awareness of the risks of lending from a loan shark and how to report loan shark activity
- Increase awareness of appropriate financial products and services
- Promote energy efficiency and provide information on how residents can access the most competitive fuel tariffs

#### Encourage

- Raise awareness of credit unions and promote membership amongst at risk groups, including older people. This will also support the target set by the City Region Financial Inclusion Forum to double credit union membership by 2017
- Support the sustainability of credit unions by encouraging new customer groups to join, who can afford to make deposits and take out loans with a higher value than at present. Approaches will include promotion of payroll deduction schemes

### Actions at an institutional level

#### Empower

- Work with Credit Unions in Knowsley to explore opportunities to collaborate, modernise and expand services

#### Encourage

- Lobby the government for the continued funding of the North West Illegal Money Lending Team
- Work with the banking sector at a local level to increase access to bank accounts and other mainstream products and services

## Enforce

- Ensure that high cost lenders operate in accordance with regulations
- Support the Illegal Money Lending Team to take action against loan sharks
- Work with the City Region Financial Inclusion Forum to hold utility providers and banking services to account for the way that they operate

# Objective 4: Access to money and debt advice

## Why it is important

In the current economic climate, more and more people are likely to be suffering some form of financial exclusion and often do not know where to go for help. Free money and debt advice can support in two ways. Firstly, timely and effective advice can build financial capabilities and prevent people from becoming over-indebted and secondly, help individuals to recover from being indebted. Traditionally, there has been an association between those on a low income having the greatest need for money and debt advice. However, there is a growing demand for support amongst new groups, such as homeowners, due to changes in the economic climate, redundancies and a rise in problem debt. Money and debt advice can support residents on the journey towards more coping and thriving circumstances. In recognition of this, the council has pledged to ensure that every resident has access to free debt and money advice.

## What do we know

- One in three residents have concerns about their future financial circumstances.
- Due to the wider economic climate, new groups of residents (such as mortgage holders and private renters) are now becoming at risk of financial exclusion, many for the first time, and will need previously unrequired support.
- There have been more than 23,000 redundancies in the Liverpool City Region over the last three years, many in the public sector, which has and will continue to impact on those who were previously living in 'coping' and also 'thriving' circumstances.
- In the last couple of years, local advice agencies (Knowsley Citizens Advice Bureau and KUC) have seen an increase in the number of residents in arrears with their bills.
- Rent arrears for tenants of Knowsley Housing Trust (the Borough's largest registered housing provider) currently stand at more than £1.6m.
- Local survey data suggests that there is a significant variation in awareness levels of free money and debt advice services. Levels were generally lowest for those over 60 and amongst residents living in Halewood. This is likely to be linked to the visibility of free services.
- Food banks are becoming increasingly important in Knowsley with almost 400 vouchers handed out in 9 months. Almost 4 out 5 households requesting help were either single adult or single parent families. Demand for food banks is expected to increase as the impact of welfare reform is felt by more and more residents.
- Evidence suggests that organisations can also benefit financially from delivering debt advice. For example, for every £100 spent on debt advice, it is estimated that there is a financial gain of £122 in the form of reduced arrears for housing associations[4].

## Current and emerging risks

- New client groups such as mortgage holders and private renters could increasingly benefit from money and debt advice. This has implications for the way that services are delivered. Standard operating hours of 9-5pm, may be unsuitable to those working full-time. It may also be more difficult to identify and signpost new clients through traditional pathways, such as housing associations, as their interaction with public and social sector

[4] Evans, G. (2011) *Does Debt Advice Pay ? A Business Case for Social Landlords.*

organisations could be limited. Anecdotal information also suggests that those experiencing money problems for the first time can lack confidence to seek help. For these groups, advice online or over the phone may be more accessible.

- Demand for free face-to-face advice remains high, however budget pressures may affect funding for free local advice in the future. Where possible, it is important that advice builds the skills of individuals to determine the best routes out of financial exclusion and stay out of financial exclusion. More collaborative working and pooling of resources between advice agencies could also help to ensure that resources are maximised and duplication is minimised.

### Opportunities

- A Knowsley Advice Forum is being formed that will bring together front-line staff from a wide range of social and public sector organisations who deliver advice to residents. The forum is an important step towards enhanced collaboration and will facilitate the sharing of best practice.

## To increase access to Money and Debt Advice we will:

### Actions at an Individual level

Educate

- Commission free money and debt advice, in areas of greatest need, at times that people need it and in the most appropriate format
- Develop and implement a three year financial inclusion campaign which seeks to promote free, impartial money and debt advice and helps residents to take control of their finances. This will include:-
  - General information for the whole community
  - Tailored and targeted information for at risk people and at recognised trigger points
  - Continued signposting through key partners such as children's centres and housing associations

Empower

- Train a network of 'community advocates' to work with residents, particularly vulnerable groups, to increase access to money and debt advice

### Actions at an institutional level

Encourage

- Encourage a wider range of partners such as private landlords, banks, GPs and health visitors to work with us to enhance signposting to free money advice

Empower

- Support the third sector to work more collaboratively to increase its capacity to deliver advice
- Support the operation of food banks in Knowsley

# Objective 5: Promoting savings, assets and insurance

## Why it is important

Assets and savings can provide opportunity and independence throughout life, flexibility to adjust to unforeseen events and financial security in retirement. Even the most modest savings have been found to act as a 'buffer' against indebtedness[5]. Increasing the take-up of saving opportunities also complements wider efforts to tackle financial exclusion. For example, increasing take-up of Credit Union saving accounts not only provides people with a secure means of saving, it also provides Credit Unions with the capital needed to extend affordable credit to more people. Access to insurance is important too. It can provide valuable protection against the effects of theft, damage or loss of property. However due to issues such as affordability, it is understandable that savings and take up of insurance are lowest amongst low income households, who could benefit most from the protection it provides.

## What do we know

- Housing repossessions in Knowsley have risen significantly over the last few years, indicating that it is becoming more difficult for people to sustain their assets.
- Local surveys suggest that levels of contents and life insurance is lowest amongst social tenants and those who are privately renting. The main reason for no insurance is 'cost'. However, despite low reported rates, 'no insurance' did not feature as a key financial concern amongst those surveyed. This could suggest that low levels of insurance are accepted as a way of life.
- Around two thirds of residents (68%) say they are unable to save in the current economic climate.

## Current and emerging risks

- Recent economic changes are likely to have impacted on efforts to create a savings culture. For a sustained period of time, credit has been more readily available and encouraged through 'buy now pay later' advertising. This has left a legacy of debt, which acts as a drain on household income and limits people's ability to save. The collapse of some high profile savings schemes and reports of pension schemes losing their value could also have affected the confidence of residents to save for the future.

## Opportunities

- A new insurance scheme for tenants has been launched by Knowsley Housing Trust. There may be opportunities to roll this out to other housing providers in the borough.
- Knowsley Council's credit union payroll deduction scheme has so far encouraged over 100 employees to become members. More than £40,000 in savings has been deposited since the scheme started. Other partners could be encouraged to build on this work and introduce similar schemes.
- National evidence suggests that there are large numbers of older home owners who are 'asset rich but income poor'. An exercise by Joseph Rowntree Foundation (2012) suggests that equity release products could offer a practical solution to some older people with financial pressures.

[5] Dearden, C. (2010). *Credit and debt in low income families*.

## To increase promote savings assets and insurance  we will:

### Actions at an Individual level

Educate

- Promote take up and understanding of pension, savings and insurance schemes

Encourage

- Work with partners to promote a savings culture amongst children, young people and adults in Knowsley

### Actions at an institutional level

Encourage

- Promote payroll deduction schemes with credit unions to employers
- Encourage housing associations to introduce and increase the take up of home contents insurance schemes for tenants

Empower

- Support the operation of the Mortgage Rescue Scheme

# Delivery and evaluation

This section sets out the approach we will take to implement the strategy and monitor its impact.

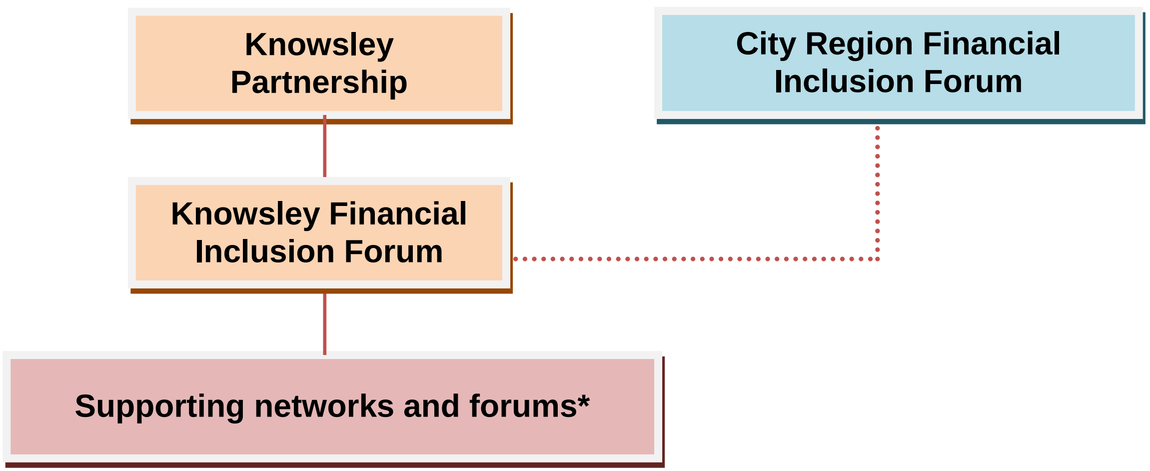
### Governance arrangements

The Knowsley Financial Inclusion Forum will lead and oversee the successful implementation of the strategy. Progress on the action plan will be reported biannually to the Cabinet Member with Portfolio for Finance and Information Technology and annually to the Knowsley Partnership. Where strategy actions are linked to City Region-wide projects and programmes, these will also be reported up to the City Region Financial Inclusion Forum.

### Implementation

The strategy action plan will be delivered via a wide network of organisations including those represented on the Financial Inclusion Forum, plus credit unions and third sector organisations, inclusing those that deliver money and debt advice. The process for developing each action plan will be a co-ordinated by Knowsley Council.

### Governance and implementation framework




* This includes: Welfare Reform Sub-group, Digital Knowsley, the 'virtual' Financial Inclusion Advisory Group and Knowsley Advice Forum (in development).

### Revision timetable

The strategy will be revised after three years. The supporting action plan and evidence will be updated on an annual basis to capture emerging issues and ensure that actions are focused on the most pressing issues.

### Monitoring and analysis

We have agreed a suite of high level population indicators to monitor progress against our financial inclusion outcomes. It should be highlighted that population indicators are influenced by a wide range of economic and social factors, some of which cannot be controlled by the actions within this strategy. However, they do provide us with a useful indication of whether the situation for residents is generally getting better or worse. The indicators will be supplemented by service measures within the strategy action plan, these will monitor partners' contributions to tackling financial exclusion.

| Outcomes | Population Indicators |
| --- | --- |
| More residents have the skills to budget and manage bills effectively | • Number of tenants in rent arrears<br>• Number of tenants in Council Tax arrears<br>• Mortgage possession claims leading to orders made per 1,000 households |
| Fewer residents have unmanageable debts | • Individual insolvency rate per 10,000 of the adult population<br>• % of residents that are very or fairly concerned by their levels of personal debt |
| More residents are able to access affordable credit and the most appropriate financial services | • Number of residents that are a member of a credit union<br>• % of survey respondents reporting that they would use a credit union or bank if they needed to borrow money |
| More residents are equipped to deal with the welfare reform changes | • % of survey respondents reporting that they are concerned by changes to benefits<br>• % of tenants that pay their rent by direct debit<br>• % of residents that pay their Council Tax by direct debit |
| More residents have the ability to build up savings and assets and access appropriate insurance products | • Total resident savings invested in Knowsley credit unions<br>• % of home ownership<br>• % of survey respondents that that feel they are able to save<br>• % of residents who are concerned about the cost of insurance |

Knowsley Council's Policy, Impact and Intelligence team will also continue to monitor and assess the overall financial resilience of residents through key analytical products, including:

- The annual Knowsley partnership strategic needs assessment
- The quarterly Economic Resilience Monitor
- The monthly Labour Market Bulletin

# Appendix 1 - Knowsley Financial Inclusion Forum membership

| Partner | Role |
|---|---|
| Connexions | Curriculum Adviser |
| Department for Work and Pensions – Pensions Service | Partner Support Manager for Cheshire and Merseyside |
| Job Centre Plus | Job Centre Manager |
| KMBC - Adult and Community Education | Community Research Project Manager |
| KMBC - Benefits Service | Benefits Manager |
| KMBC - Business Partnerships | Business Partnerships Manager |
| KMBC - Exchequer Services | Assistant Borough Treasurer (Exchequer) |
| KMBC - Revenues | Revenues Team Manager |
| KMBC - Financial Inclusion | Knowsley Financial Inclusion Manager |
| KMBC - Neighbourhood Management | Area Relationship Director for Prescot, Whiston, Cronton and Knowsley Village |
| KMBC - Trading Standards | Consumer Protection Manager |
| Knowsley Housing Trust | Corporate & Social Responsibility Manager |
| National Energy Action | Project Development Co-ordinator |
| NHS Knowsley | Public Health Development Manager |
| Surestart Children’s Centres | Sure Start Children's Centres Manager |
| United Utilities | Outreach Manager |

# Appendix 2 - Acknowledgements

This strategy has benefited from the views and contributions of the following partners:

| | |
|---|---|
| Age UK KWM | Knowsley Older People's Voice |
| Citizens Advice Bureau | Knowsley Pensioners Advocacy & Information Service |
| Department for Work and Pensions – Pensions Service | Liverpool City Region Financial Inclusion Forum |
| Enterprise Credit Union | Liverpool John Moores University |
| Halewood Community Credit Union | National Energy Action |
| Job Centre Plus | NHS Knowsley |
| KUC Ltd | One Vision Housing |
| Knowsley Community College | Platform 51 |
| Knowsley Domestic Violence Support Services | Prescot and Whiston Community Advice Centre |
| Knowsley Housing Trust | Surestart Children's Centres |
| Knowsley Metropolitan Borough Council | Villages Housing Association |
| Knowsley Mutual Credit Union | |

# Appendix 3 - Who is at risk of financial exclusion?

| Characteristic | Current and future financial challenges | Estimated numbers 'at risk' in Knowsley |
|---|---|---|
| **Tenants of Registered Providers** | • Housing benefit reductions (see Appendix 3 for details)<br>• Reductions in Council Tax benefit<br>• Introduction of universal credit with all benefits paid direct to tenants. There is a risk that tenants with low financial capabilities will not be able to manage housing payments. | **18,000** social housing households |
| **Mortgage holders with high LTVs[1], debt servicing costs** | • Risk of redundancy - there have been more than 23,000 redundancies in the Liverpool City Region from 2009 to 2012. This is worrying as a national survey (The Financial Inclusion Centre, 2011) suggests 44% of households are dependent on more than one salary to cover bills.<br>• The benchmark interest rate has been set at 0.5% for the last three years and has protected many homeowners. Analysis by The Financial Inclusion Centre suggests that a 1% increase would cost an average mortgage holder £77 extra per month and push many households into recurring debt if savings could not be made elsewhere. | **26,000** households have a mortgage |
| **Private renters with low or unstable income** | • Reductions to the Local Housing Allowance paid to those living in private rented accommodation (refer to Appendix 3 for details)<br>• Reductions in Council Tax Benefit | **3,900** households are privately renting |
| **People in work and on a low income** | • Working tax credit freezes and reforms<br>• Reductions in Council Tax Benefit<br>• Difficult labour market. In particular, 'underemployment' is a growing concern. It refers to an employment situation that is insufficient to the employee. It includes holding a part-time job, despite wanting full-time work, and over-qualification, where the employee has skills beyond the job requirements. According to the Trade Union Congress, low skilled and people young are most likely to be trapped in jobs that do not have enough hours to provide the income they need. | **6,400** households receive Working Tax Credits |
| **People claiming out-of-work benefits** | • Overall benefit cap<br>• Reductions to Council Tax benefit<br>• Introduction of universal credit<br>• Increasingly difficult labour market, particularly for those with the least skills and experience | **21,810** residents claim key-out-of-work benefits |
| **Single Parents** | • Child benefit frozen for three years from April 2011<br>• Reductions in Council Tax Benefit<br>• Difficult labour market. Women are particularly vulnerability to public sector redundancy<br>• Childcare cost support through Working Tax Credits has been reduced from 80% to 70%<br>• Single parent element of working tax credit frozen 2012/2013 | **2,760** lone parent benefit claimants |

| Characteristic | Current and future financial challenges | Estimated numbers 'at risk' in Knowsley |
|---|---|---|
| | • Introduction of universal credit | |
| **People with physical disabilities, learning disabilities or difficulties, and mental health problems** | • For some adults with physical disabilities their condition may limit their physical access to financial services and their ability to use new technological devices such as chip and pin services.<br>• Direct payments and personal budgets are being rolled out to give service users control over their care budget. Some individuals involved are vulnerable and may lack financial capability. Those with learning disabilities / difficulties or mental health problems could temporarily or permanently be unable to manage their own finances, and allowing them to do so could put them at extra risk.<br>This group is also at risk of potential welfare reductions through transfer of:<br>• Incapacity Benefit and Severe Disability Allowance to Employment Support Allowance.<br>• Disability Living Allowance for 16 - 65 year olds to be replaced by Personal Independence Payment (PIP) 2013-2016. | **24,500** people are estimated to be disabled |
| **Young adults under 24** | • Loss of education maintenance allowance<br>• Higher university tuition fees<br>• Fewer job vacancies<br>• Affected by wider financial pressures and benefit reductions experienced by their family<br>• There are concerns that the above factors are causing more young people to enter low paid, low skilled and part-time work rather than continuing further and higher education. Missed opportunities at college and university will ultimately limit a young person's ability to gain high paid and sustainable employment. | **15,272** residents aged 18-24 |
| **Older people over 65** | • Rise in online financial services. This could exclude those over 65 who are less likely to use the internet compared to other age groups.<br>• The abolition of the cheque guarantee card is said to have affected the confidence of retailers in accepting cheque payments (Age UK). This method of payment is most used by older people.<br>• Decline of the final salary pension scheme means people need to get better at long-term planning to make provision for their old age. | **23,275** residents aged over 65+ |
| **Victims / Survivors of domestic abuse** | • Financial abuse can be used to control a victim and take away their financial independence. This may prevent a victim from escaping their abuser, leaving them in a potentially life threatening situation. Nationally, women account for 89% of victims.<br>• Universal Credit will be paid to one member of a couple only. There is a concern that this will reduce the amount of money available to victims of domestic abuse and their children. | **1 in 7** adults are estimated to be victims of domestic abuse |
| **All vulnerable groups** | • High rate of inflation<br>• Food and fuel price rises (half of all residents who took part in the August Tracker Survey had concerns about the food prices and utilities) | / |

| Characteristic | Current and future financial challenges | Estimated numbers ‘at risk’ in Knowsley |
|---|---|---|
| | • Rise in public transport and petrol costs<br>• Pay freezes<br>• Real income has fallen for the first time in five years. According to the Institute for Fiscal Studies (2012) earnings have been outstripped by inflation and pay freezes.<br>• As a result of the credit crunch, mainstream financial services are more restrictive in offering services to groups deemed to be high risk. There is a danger that some people could resort to high cost but immediate credit | |

# Appendix 4 - Welfare reform timeline

## Welfare reform changes implemented

**From April 2011**

• Annual ‘uprating’ of most benefits based on the lower CPI rather than RPI.
• Non-dependant deductions increased on Council Tax and Housing Benefit – increases ranged from 55p per week to £12.85 per week.

• Changes to Local Housing Allowance:
  - o Five bed rate removed and upper limit introduced for all property sizes (two cases in Knowsley).
  - o £15 ‘excess’ removed (affected approx 900 claimants).
  - o LHA rates based on bottom third of the rental market (transitional protection of nine months was introduced for existing claimants which delayed this reduction until January 2012 for most customers). Reductions in benefit range from between £5 and £12 per week for a two bedroom property and between £6 and £11 per week for a three bedroom property (affected approx 2,300 claimants).
  - o Additional room allowance for a carer.

• Child Benefit frozen for three years.

**From January 2012**

• Single claimants aged up to the age of 35 (with no children) living in privately rented property had their Local Housing Allowance reduced to the ‘shared accommodation rate’. This previously only applied to single claimants up to the age of 25. Typically, this has meant a reduction in benefit of around £37 per week (approx 220 affected in Knowsley).

**From April 2012**

• Contribution based Employment Support Allowance limited to 12 months (for those in the ‘work related activity’ group).
• To qualify for Working Tax Credit, couples with children are now required to work at least 24 hours a week between them (previously 16 hours) and one of the couple must work at least 16 hours a week.
• Backdating of Working Tax Credit where entitlement has increased is now limited to one month (previously three months).
• The main elements of working tax credit have been frozen for 2012/13.
• Child Benefit frozen until April 2014 (confirmation of three year freeze which started in April 2011).

**From May 2012**

• Lone parents are no longer entitled to receive Income Support once their youngest child reaches the age of 5 (was previously 7 years of age). Instead, they will be able to claim Job Seekers Allowance and will be expected to be available for work and to engage with the work programme. Claimants affected will be moved off Income Support between May and August 2012.

## Future welfare reforms

**From January 2013**

• Child Benefit will start to be withdrawn from families where one parent is earning £50,000 or above. The benefit will be gradually reclaimed through increasing tax up to £60,000, after which the family will stop getting the benefit completely.

(Latest DWP figures indicate that 21,185 families in Knowsley are in receipt of child benefit - 35,725 children - and will therefore be affected by the various changes to Child Benefit since April 2011.)

**From April 2013**

• Benefit cap for working age claimants will be introduced.
  - o Will be set at around £500 per week for couples and lone parents and £350 per week for single adult households (estimated 123 families in Knowsley)
  - o Some households will be exempt from the cap, for example, where they are in receipt of Working Tax Credits or where claimants / dependants are in receipt of disability benefits.

• Introduction of size criteria for working age claimants in the social housing sector (bedroom tax).
  - o Housing Benefit entitlement will be restricted to the number of bedrooms allowed under the Local Housing Allowance size criteria. It is estimated that in the north of England, this change will affect around 43% of claimants.
  - o The change is likely to result in a reduction in Housing Benefit of around £13 per week where there is one extra bedroom and £20 per week where there are two.

• Disability Living Allowance to be replaced by Personal Independence Payments (PIPs) for working age claimants.
  - o Merseyside will be a pilot area for the introduction of the new PIP which will replace Disability Living Allowance for working age customers.
  - o The new benefit will be similar to DLA in its basic structure, in that it will not be means-tested.
  - o It will consist of a daily living component and a mobility component, each of which will be payable at a standard and enhanced rate.
  - o It is estimated that by 2015/16, those in receipt of DLA will have reduced by 500,000 as a result of this reform.

• Local Support to replace Community Care Grants and Crisis Loans – these discretionary elements of the Social Fund will be replaced by a locally based service administered by local authorities.

• Localisation of Council Tax Benefit
  - o Local Council Tax support schemes will replace the national CTB scheme.
  - o Funding will be reduced by at least10%.
  - o The government requires local authorities to protect pensioners from any reductions in support for Council Tax.
  - o This could mean a reduction in support of around 20% for working age claimants.

**From October 2013**

Universal Credit will start to be rolled out with all claimants having migrated to this new benefit by October 2017.

# Appendix 5 - Interdependent strategies

- Children and  Families Strategic Plan 2011-14 (Schools, Young People, Vulnerable Children)
- Family Policy 2011-15
- Housing Partnership Tenancy Strategy 2012-15
- Knowsley Domestic Abuse Reduction Strategy
- Knowsley Community Empowerment Framework (Social Growth) 2011-15
- Knowsley Council/Chamber of Commerce Economic Regeneration Strategy 2012-15
- Knowsley Joint Health and Wellbeing Strategy 2012-15/16
- Knowsley Vulnerable Adults Strategy 2011-15
- Liverpool City Region Employment and Skills Strategy
- Liverpool City Region Child Poverty and Life Chances Strategy (2011-2014)

# Appendix 6 - Glossary of terms

| Term | Explanation |
|---|---|
| Bankruptcy | A person can be declared bankrupt by a court order if their unsecure debts (such as credit card debt and personal loans) outweigh their assets (such as property or vehicles). Subject to some restrictions, bankruptcy proceedings will ensure that a person's assets are shared out fairly among creditors and that any remaining debts are written off. |
| Debt Relief Order | People can apply for a debt relief order if they cannot afford to pay off their debts. It is for people who owe less than £15,000, are on a low income and do not own their home. The order usually lasts for a year and during that time, creditors are not allowed to recover their money without the court's permission. At the end of the year, the debtor is usually freed of all the debts listed in the order. |
| Credit crunch | A situation where there is a sudden decrease in the availability of credit from banks and other lenders in order to reduce their own risk. Lenders can make it more difficult for people to get loans and mortgages by tightening their lending policies and introducing charging higher fees. |
| Credit Union | Credit Unions are financial co-operatives owned and controlled by their members. They provide savings facilities and low cost loans for their members. Some also provide basic bank accounts and insurance products. They are available to members who may not be able to access these services from mainstream providers and have an important role to play in providing greater choice and diversity in the financial services sector. |
| Financial exclusion | In simple terms, financial exclusion is a person's inability to access appropriate and affordable financial products and services. |
| Financial inclusion | The process for ensuring that individuals have access to appropriate financial products and services. This includes people having the skills, knowledge and understanding to make the best use of those products and services |
| Fuel Poverty | A household that needs to spend more than 10% of its income on keeping warm. |
| Individual Insolvency | An umbrella term for people who take one of the following routes due to overwhelming debts: Individual Voluntary Agreement, Bankruptcy or Debt Relief Order. |
| Individual Voluntary Agreement | A legally binding arrangement to help a person overwhelmed by debt. An agreement is made between an individual and their creditor to pay all or part of their debts. Monthly payments are usually made over a period of 5 years. Creditors will not add interest to the debt unless the person's situation changes and they are able to pay the debts in full during the IVA term. |
| Loan-to-value | Refers to how much mortgage someone has in relation to how much their property is worth. Often, first time buyers will not have a lot of money to put down as a deposit, meaning that their **loan- to value** is quite high. Since the credit crunch some people have found themselves in negative equity as they took high loan-to-value mortgages (sometimes exceeding what their property was worth) then found that their property price went down. |
| Out-of-work benefits | Incorporates job seekers allowance, employment support allowance, incapacity benefits, lone parents and others on income related benefits. |
| Over-indebtedness | A term used to describe debt which has become a major burden for the borrower. It is generally measured by |

| | |
|---|---|
| | reference to a combination of indicators including household debt to income ratios, the number of commitments, the value of arrears and subjective measures of debt (i.e. whether individuals declare themselves as having a 'heavy burden' of debt). |
| Poverty premium | People on a low income pay more for a range of goods and services because they are excluded from mainstream products (examples include direct debits and exclusive online fuel deals.) The higher costs and charges they incur is known as the 'poverty premium'. Save the Children (2011) estimate that the poverty premium costs an average family £1,280 per year. |
| Recession | A period of economic decline, typically defined as a decline in Gross Domestic Product for two or more consecutive quarters. A recession is often accompanied by job losses, business closures and a decline in the housing market. |