Brent Financial Inclusion Strategy

September 2015

CONTENTS

FOREWORD

I am very excited to be a part of this piece of work. As we know all too well, financial exclusion is both a symptom and a cause of ongoing poverty. We know that Brent residents on low incomes are most likely to be without bank accounts, rely on high cost payday lenders and pay more for essential products and services because they are not able benefit from the discounts to be found by shopping online or by paying for utilities by direct debit. These additional costs, know as the ‘poverty premium’ have been estimated to cost an average family in poverty almost £1,300 a year.

There are other impacts, not all of which are financial. Problem debt is a key contributor to wider issues of social exclusion, with many too afraid to seek help. Problem debt can result in high levels of stress, depression, poor health and family breakdown.

The impact of the government’s welfare reforms, reducing tax credits and sanctions to claimants go to show that not everyone is benefiting from an upturn in the economy. Added to this, local authority budgets continue to shrink, meaning councils up and down the country must make unprecedented choices about how to use what diminishing resources we have.

Brent Council believes that investing in developing a wide-range of partners to tackle financial exclusion will help families not just today but will have long-lasting positive impacts on children and future generations. Tackling financial exclusion requires coordinated action on all fronts – from the council, our community and voluntary sector, banks, credit unions and housing associations.

This strategy builds on the good work that is already being undertaken to tackle financial exclusion and the strong partnerships that we already have and will continue to develop further. It will support individuals and families to overcome the barriers they may face to financial inclusion. We are confident that by working cooperatively we can create a borough where more residents are financially included, capable and confident.

Councillor Roxanne Mashari – Lead Member for Employment and Skills

INTRODUCTION

Financial services play an important part in people's everyday lives. Most people have bank accounts, into which regular salaries, wages or benefits payments are made, and from which bills are paid. People rely on mortgages to buy a home, savings and pensions to plan for the future and build resilience in case of an unexpected expense. Many people also have insurance policies to safeguard their home, possessions, income in case of illness, injury and death.

Having access to the mainstream financial products and services, such as those above, is generally referred to as **financial inclusion** and not having access as **financial exclusion**. Having the knowledge, confidence and skills to manage your finances is often referred to as **financial capability**. Greater **financial literacy** will enable one to identify the right product or service for his/her personal circumstances, and being able to access it and manage one's finances will contribute to one's overall financial well-being and **financial health**. This strategy sets out clear ways for helping residents to become more financially capable.

Those most likely to experience financial exclusion include: households on low income; lone parents; young people (aged 18-24); the over 60s; people with disabilities; households in social housing; and homeless households.

Navigating the different types of banking and savings accounts, interest rates for loans and mortgages or even the ethics of a particular bank can be difficult for even the most financially included, let alone those on low wages or benefits who perhaps have never used financial products from a traditional bank or credit union. Moreover, research suggests that the additional costs associated with being excluded can much worse for those on low incomes – this is referred to as the 'poverty premium'.

Households who operate solely on a cash budget are unable to make savings via direct debits on utility bills, are more vulnerable to loss or theft and they are far more likely to use the alternative credit market and pay interest several times higher than standard personal loan, often leading to unmanageable debt.

Recent changes to the benefits system and the introduction of Universal Credit (UC) make the need to ensure residents are as well informed and capable to deal with these changes as possible all the more pressing.

For Brent Council, tackling financial exclusion and promoting greater financial literacy, capability and inclusion is about more than addressing the symptoms of being excluded; it is about cultivating relationships with a broad range of stakeholders to help residents to make informed choices and take advantage of advice and we will develop innovative partnerships that foster broader independence and resilience.

STRATEGIC CONTEXT

Financial inclusion requires both an inclusive financial environment and one in which individuals are confident and capable of making the right decisions for themselves and their families. This Financial Inclusion Strategy will focus delivery on both of these two requirements. Moreover, this strategy should be viewed in conjunction with the council's new Borough Plan (2015-2019), which firmly sets out the council's ambitions to improve the quality of life and opportunities for all residents. This Financial Inclusion Strategy has been produced within the context of the Borough Plan's vision for Brent.

> **A great place to live and work**
> *Our vision is to make Brent a great place to live and work, where people feel that they have real opportunities to change their lives for the better, where they feel that they and their children are safe and cared for and achieve well, and where they receive excellent services when they need them. A place where business and enterprise can prosper and where local people can find employment; a place with plentiful access to arts, leisure and cultural activities; a place where people from different backgrounds feel at ease with one another; a place where the principles of fairness, equality, good citizenship and respect for people and place are valued.*

The Borough Plan has three strategic priorities to deliver our vision above: Better Lives, Better Place and Better Locally. This strategy is closely aligned to the priorities under Better Lives and Better Locally.

Better lives

- Making sure that local people have the best possible life chances, regardless of their starting position
- Supporting local enterprise, generating jobs for local people, helping people into work and promoting fair pay
- Making sure that our schools are amongst the best and that our children and young people achieve to their potential
- Enabling people to live healthier lives and reducing health inequalities
- Supporting vulnerable people and families when they need it

Better locally

- Building resilience and promoting citizenship, fairness and responsibility amongst local people and strengthening the sense of community amongst the people who live and work here
- Promoting cohesion and integration amongst our communities
- Making sure that everyone has a fair say in the way that services are delivered, that they are listened to and taken seriously
- Making sure that inequalities in the quality of life in different parts of the borough are tackled by a stronger focus on local needs
- Building partnerships – between local service providers and between local services and residents – to find new ways of providing services that are more finely tailored to individual, community and local needs

In addition to the strategic priorities outlined in the Borough Plan, this strategy also has links with other aligned council priorities, including the Employment, Skills and Enterprise Strategy, the Housing Strategy and the council's response to recent welfare reforms and the introduction of Universal Credit.

DEVELOPING THIS STRATEGY

This strategy has been co-produced with residents, our partners in the community and voluntary sector, registered housing providers, financial institutions and councillors. Through one-to-one discussions with partners and a public consultation event, which attracted nearly fifty attendees, we have sought out a wide range of perspectives including from those existing innovative projects, such as the Hyde Housing's Money House. We have also had input and learning from how other council's have developed their own partnership approaches, including Lambeth's Financial Resilience Programme, Tower Hamlet's FITH programme and Brighton and Hove's Community Banking Partnership, just to name a few.

UNDERSTANDING FINANCIAL EXCLUSION

Households who are financially excluded are often those in poverty or experiencing multiple disadvantages and, as a result, such households may:

- not be able to access affordable credit;
- not want, or have difficulty obtaining a bank account;
- be financially at risk through not having home insurance;
- struggle to budget and manage money or plan for the unexpected; and/or
- not know how to make the most of their money.

A Friends Provident Foundation report provides a helpful summary of what financial inclusion might look like; according to their vision for financial inclusion, all households should have access to, use and retain:

- an appropriate account, or equivalent product, into which income is paid and can be held securely and accessed easily;
- an appropriate method of paying and spreading the cost of household bills and other regular commitments;
- an appropriate method of paying for goods and services, including making remote purchases by telephone and on the Internet;
- an appropriate means to smooth income and expenditure.[1]

If financial inclusion is about access to products and services, **'financial capability'** is "… a broad concept, encompassing people's knowledge and skills to understand their own financial circumstances, along with the motivation to take action".[2] In 2006, the UK financial services regulator, the Financial Services Authority, identified five key areas of financial capability, including:

- being able to manage money;
- keeping track of finances;
- planning ahead;

[1] Friends Provident Foundation, *Developing a vision for financial inclusion*, 2012
[2] *Financial Capability: the Government's long term approach,* HM Treasury, 2007

- choosing financial products; and
- staying informed about financial matters.[3]

The descriptions above are useful for our understanding of financial inclusion and capability because they illustrate the importance of building the requisite skills and knowledge, in addition to having access to mainstream financial products and services.

Who is most likely to be financially excluded?
Those most likely to experience financial exclusion include: households on low incomes or benefits; lone parents; young people (aged 18-24); the over 60s; people with disabilities; households in social housing; households in the private rent sector; and the homeless.

Other groups, particularly vulnerable to financial exclusion include those who operate solely on a cash budget. Those without - or not using through self-exclusion - transactional bank accounts and electronic payment methods are unable to make savings via direct debits on utility bills, are more vulnerable to loss or theft and they are far more likely to use the alternative credit market and pay interest several times higher than standard personal loan, often leading to unmanageable debt.

THE POLICY CONTEXT

Over recent times, the Government has introduced a number of welfare reforms, including the introduction of an overall benefit cap, the removal of the spare room subsidy (also known as the bedroom tax) and cutting of the Social Fund – the lender of last resorts. The Government also stopped the Saving Gateway pilot scheme, an initiative to help families on low incomes start saving.

The Government has replaced the Office of Fair Trading with the Financial Conduct Authority (FCA), giving it new powers of regulation and enforcement to counteract the high cost, short term loan industry, e.g. *payday lenders*. The Financial Services (Banking Reform) Act 2013 came into force this year (2015) which, among other provisions, introduces an interest rate cap, which includes:

- the initial cost of credit limited to 0.8% per day, with an annualised percentage rate of 1,270%;
- default fees limited to £15 and default interest must not exceed 0.8% per day; and
- a 100% repayment cap, meaning that the borrowers will never have to repay more than double the amount they borrowed (see FCA, 2014).

In 2015, a new cross-party Financial Inclusion Commission was formed. The Commission was chaired, independently, by Sir Sherard Cowper-Coles and made wide ranging recommendations, including the need for a senior minister in government on financial inclusion with the title of 'Minister for Financial Health'.

The Welfare Reform and Work Bill, expected to come into force in 2016, is intended to reduce rents, year-on-year, for those in social housing until 2021.

[3] Financial Services Authority, *Financial Capability in the UK: Establishing a baseline*, 2006

EVIDENCE BASE

The section below draws out the some of the key issues relating to financial exclusion, first nationally, then locally. This is important because it highlights the main aspects and vulnerabilities of financially excluded families and why it is important to help residents move into inclusion.

Profile of Brent

Brent is a borough of contrasts. This strategy has been developed with partners to identify specific needs in Brent, such as how to enable greater access to financial products and services. This requires that those trying to access such services are financially literate, capable and confident. Therefore, much of what this section of the strategy seeks to do is to develop an understanding of Brent's local economy, the extent of local poverty and to what extent Brent's residents are financially excluded.

Brent is now the fifth largest London borough with an estimated population of 320,781[4], a quarter of whom are 19 years old or younger. It is also widely accepted to be among the most diverse local authorities in the country, with 64% of the total population from black and minority ethnic backgrounds. Geographically, Brent is both an inner London borough – bordering the City of Westminster, Camden, Hammersmith and Fulham, Kensington and Chelsea and Ealing – and an outer London suburban area bordering Barnet and Harrow to the north and northwest of London. It is, however, not without its fair share of challenges; median household income in Brent is £30,588 with one in three children growing up in poverty. In some of the most deprived wards, this rises to one in two.

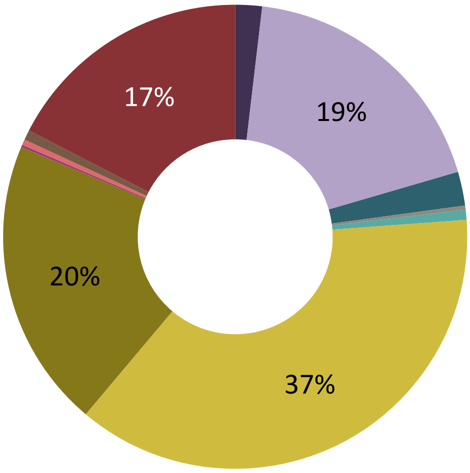
Brent is a comparatively low wage economy, with 29% of all jobs in Brent being classified as low-paid[5]. Fewer people in Brent are economically active than the regional and national averages and benefit rates are correspondingly high. In Brent 16% of the working age population receive key benefits compared with 13% regionally (London) and nationally[6].

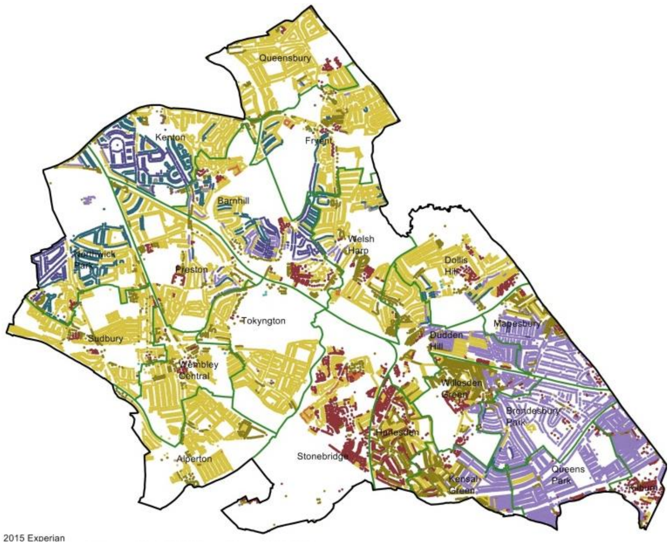
At the time of the 2010 Index of Multiple Deprivation (IMD) Brent was ranked as the 35th most deprived local authority, declining 18 places since the 2007 rankings were published. According to these rankings, Brent was the 11th most deprived London borough. Deprivation levels increased across 65% of Brent areas with deprivation increasing in 114 of Brent's 174 Lower Super Output Areas.

According to Experian Mosaic profiling (see Figure 1 below), Brent is dominated by groups C (City *Prosperity*), I (*Urban Cohesion*), J (*Rental Hubs*) and O (*Municipal Challenge*)[7]. The Municipal Challenge group (group O), into which 17% of Brent's households fall, is characterised as the group most likely to be in social housing and having the second lowest income of any group. They are also characterised as being in generally bad health (second worst of the 15 groups) and with high levels of debt.

[4] Greater London Authority estimates for 2015
[5] Annual Survey of hours and earnings, ONS, average for 2011-2013
[6] Comparisons indicative only as information has been drawn from two sources (DWP and ONS)
[7] The index scores for Brent which follow are calculated by proportionally combining the scores of all the groups which make up the borough.

Figure 1: Experian Mosaic profile of Brent





Copyright 2015 Experian
Crown Copyright and database rights 2015 Ordnance Survey 100025260

A	Country Living	Well-off owners in rural locations enjoying the benefits of country life
B	Prestige Positions	Established families in large detached homes living upmarket lifestyles
C	City Prosperity	High status city dwellers living in central locations and pursuing careers with high rewards
D	Domestic Success	Thriving families who are busy bringing up children and following careers
E	Suburban Stability	Mature suburban owners living settled lives in mid-range housing
F	Senior Security	Elderly people with assets who are enjoying a comfortable retirement
G	Rural Reality	Householders living in inexpensive homes in village communities
H	Aspiring Homemakers	Younger households settling down in housing priced within their means
I	Urban Cohesion	Residents of settled urban communities with a strong sense of identity
J	Rental Hubs	Educated young people privately renting in urban neighbourhoods
K	Modest Traditions	Mature homeowners of value homes enjoying stable lifestyles
L	Transient Renters	Single people privately renting low cost homes for the short term
M	Family Basics	Families with limited resources who have to budget to make ends meet
N	Vintage Value	Elderly people reliant on support to meet financial or practical needs
O	Municipal Challenge	Urban renters of social housing facing an array of challenges

Employment, income and the impact of financial exclusion

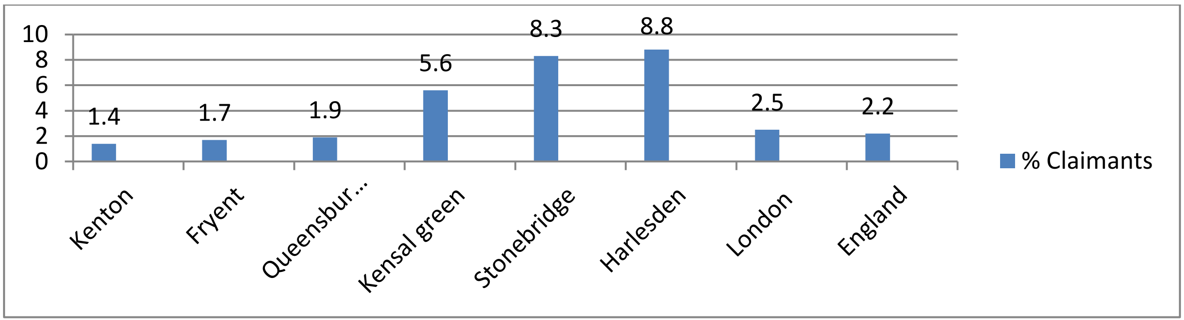
Financial exclusion affects individuals and families in a number of ways; one of the biggest being that financial exclusion disproportionately impacts on the poor through an extra cost of meeting basic living expenses. Since the economic crisis in 2008, the cost of living is increasingly being seen as just as important, if not more, than macro-economic growth. Indeed, for most people the national economic recovery has yet to have any real impact on low-income working families or those dependent on unemployment or other long-term welfare benefits. Moreover, not having access to financial services or an ability to make the right choices concerning household finance can further compound this problem.

Employment and income, that is how much is coming into the household, is by far the single greatest indicator of financial inclusion or exclusion. Research from the Financial Inclusion Annual Monitoring Report 2015 notes that although unemployment figures have fallen from their 2009-2010 recession peaks, nearly two million people were unemployed at the end of 2014 whilst long-term unemployment has failed to return to pre-recession levels. From January to August 2014, the number of zero-hour contracts has risen from 1.4 million to 1.6 million, suggesting that although unemployment has fallen, stable and well-paid jobs remain hard to find.[8] Average hourly wages also remain lower, in real terms, than before the recession. The latest Households Below Average Income (HBAI) data of median incomes (after housing costs) in 2012-2013 was £374, which is a real terms reduction of 8% from 2009-2010 levels.[9]

In Brent, employment continues to improve across a number of age groups, mirroring trends across London. In the period from April 2014 to March 2015, there were 171,800 people aged 16-64 classified as 'economically active', with 160,200 in employment and 12,000 unemployed[10]. This represents an unemployment rate of 7.1%,[11] only slightly higher than the London average (6.7%). Importantly, however, these figures vary by ethnicity and across wards. According to Brent's latest Joint Strategic Needs Assessment,[12] Indian people have the highest rate of employment (69%), and black people the lowest (52.1%).

Figure 2 below further highlights this variance. At ward level, the number of people claiming Job Seekers Allowance in Stonebridge (8.3%) and Harlesden (8.8%) is nearly three and four times as high as the national average, whereas in some of Brent's more affluent wards, the rate is well below the national average. Indeed, these figures illustrate just how mixed employment outcomes in Brent can be and points to some neighbourhoods and wards having pockets of entrenched, long-term unemployment and other indicators of deprivation.

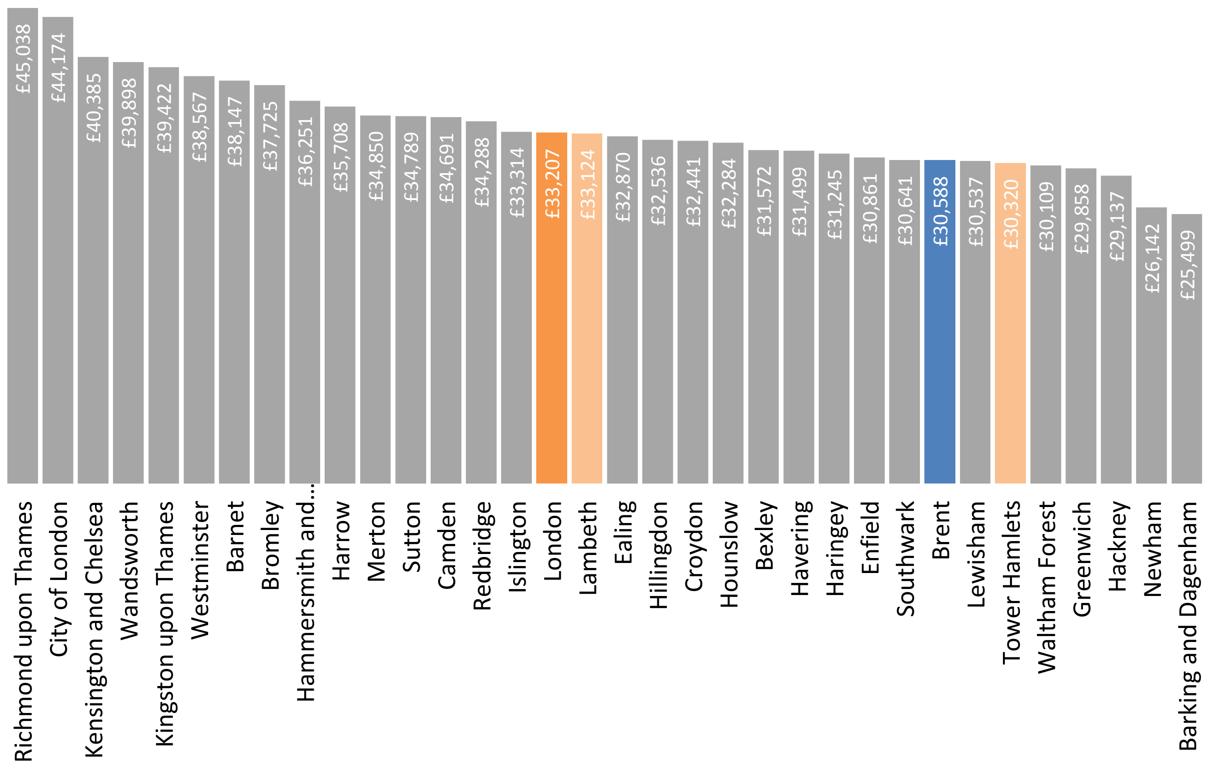
Figure 2: Job Seekers Allowance claimant rates as of January 2015



[8] Rowlingson, K and McKay, S (2015), Financial Inclusion: Annual Monitoring Report 2015, Birmingham: University of Birmingham, pg 5
[9] Ibid, pg 5.
[10] Aged 16 and above.
[11] ONS via NOMIS: https://www.nomisweb.co.uk/reports/lmp/la/1946157263/report.aspx#tabempunemp
[12] Brent JSNA published December 2014.

CACI Paycheck data (see Figure 3 below) from this year also indicates that despite consistent rises in average income, Brent is still a relatively low-paid borough.[13]

Figure 3: CACI Average Incomes by London borough as of May 2015



Research undertaken by the Resolution Foundation[14] found that those experiencing financial exclusion were also at risk of facing multiple disadvantages, effectively locking them in a cycle of over-indebtedness and poverty, including the following:

- reliance on illegal or doorstep lenders with excessively high interest rates;
- difficulty in securing employment because they do not have a bank account into which a wages can be paid;
- paying more for utilities as they are unable to take advantage of savings from setting up a direct debit or other automated payment methods;
- lack of information or access to insurance to help deal with unexpected financial demands;
- lack of access to appropriate financial advice; and
- poor physical and mental health brought on by distress from financial worries.

[13] CACI Paycheck data May 2015
[14] Resolution Foundation, *Financial Inclusion and Financial Capability Explained,* 2009

Banking exclusion and the poverty premium

The costs of being unbanked or marginally unbanked[15] is widely seen through the prism of what has become known as the *poverty premium*[16] or the additional costs associated with those who wish to or have no other alternative but to manage their money mostly by cash.

According to Claire Whyley's *Financial Inclusion Evidence Review*, the most documented ways in which these additional costs are manifested relate to:

- Paying bills and, in particular, the additional costs – in time and money – of paying bills in cash;
- Making and receiving other payments, including income from employment; and
- Difficulties of smoothing household expenditure and managing financial shocks without access to banking facilities.[17]

One example of how this works is pre-payment meters. The Debt Advisory Centre estimates that 5.9 million UK households use pre-payment meters to pay for gas or electricity rather than paying by direct debit. Some people prefer this method because it allows them to manage their bills. However, there are often additional costs associated with pre-payment meters and many residents are not aware of how they can switch to direct debit payments.

In addition to not paying bills by using direct debits, households on low incomes also find it difficult and more expensive to pay for items sold online and sending and receiving payments, with some "cheque-cashers charging fees of 10% of the face value of the cheque or more".[18]

In *Poverty Premium,* Save the Children and the Family Welfare Association report that people on low incomes could be paying as much £1,000 a year to access financial services and utilities. The extent of the poverty premium can effectively be seen through the table below,[19] which compiles average spends across services:

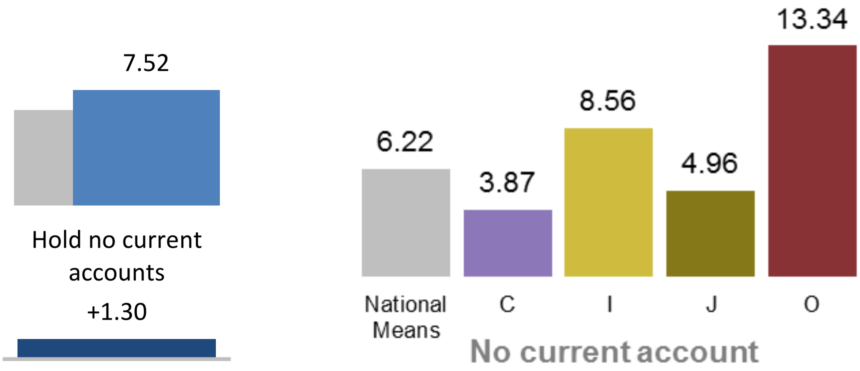
Figure 4: Examples of the Poverty Premium

Service	Typical (average) costs	Costs to low income households
One expensive consumer good (e.g. a white good appliance)	£159.99	£405.00
One £500 loan	£539.00	£825.00
Three £200 cheques cashed	£0.00	£49.50
Annual gas bill	£609.70	£673.70
Annual electricity bill	£339.30	£368.20
One mobile phone	£315.96	£395.44
Home contents insurance	£465.85	£618.80
Car insurance	£475.48	£571.55
Total	**£2,905.28**	**£3,907.19**
Poverty premium		**£1,001.91**

[15] Those with a basic bank account with limited functionality and inability to manage their money through this service
[16] Save the Children, *The Poverty Premium*, 2007
[17] Claire Whyley, *Financial Inclusion Evidence Review: The costs of banking exclusion and the benefits of access to bank accounts*, 2010
[18] Ibid, pg 8
[19] Save the Children: http://www.savethechildren.org.uk/sites/default/files/docs/poverty_briefing_1.pdf

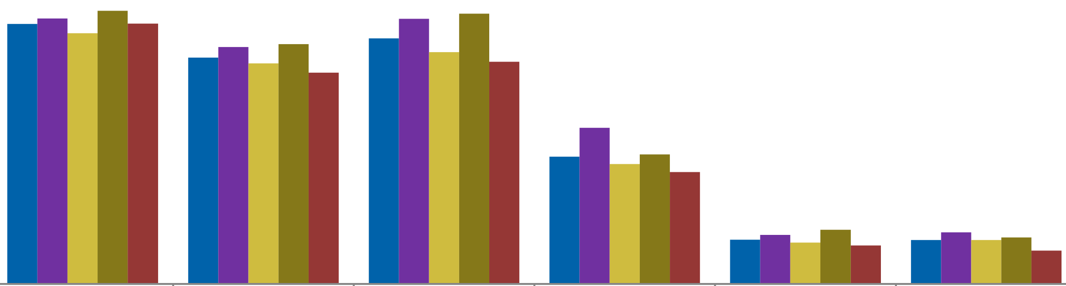
Mosaic data indicates that households in Brent are more likely than the national average to hold no current accounts. The four largest component groups (see Figure 5 below) show that those in the *Municipal Challenge* group (O) is the group which is much most likely to hold no current accounts.[20]

Figure 5: Mosaic groups most likely to be excluded from mainstream banking



Looking at the Figure 6 below, those in groups C (*City Prosperity)* and J (*Rental Hubs*) appear to use all banking channels more than the national average, while both groups I (*Urban Cohesion)* and O (*Municipal Challenge)* are particularly less inclined to use online banking. These last two groups alone represent 54 per cent of Brent.

Figure 6: Mosaic Groups accessing banking channels



	ATM (cash machine)	Branch	Online	Telephone	Mobile phone (WAP/SMS)	Post
Brent	76.34	66.43	72.10	37.34	12.99	12.88
C	77.95	69.57	77.83	45.86	14.35	15.16
I	73.59	64.71	68.07	35.23	12.17	12.89
J	80.14	70.37	79.30	38.03	15.88	13.67
O	76.43	61.99	65.17	32.83	11.23	9.81
National Means	75.24	66.44	71.89	33.43	10.14	11.54

Meeting one-off expenses

As seen above, the poverty premium can entrap a family, even working families, in cycle of high interest and debt, usually because they are unable to meet one-off emergency expenses, such as a home appliance repair or cessation of benefits. The Financial Inclusion

[20] Experian Mosaic / TGI

Monitoring report for 2015[21] noted that in 2014, half of respondents (in paid employment) said they did not have enough money put aside for emergencies.

When asked if they could find £200 at short notice, nearly a quarter (22%) said they would not be able to meet this expense or preferred not to answer the question; the response in 2015 represents a rise of 5% from 2014. In 2014, 15 per cent of respondents said they would need to borrow the money, either through a formal loan (e.g. personal loan, credit card or overdraft) or an informal loan from a friend or family member. In 2015, this figure rose to 21 per cent.

Need for affordable credit

Much of the national research undertaken on financial inclusion and households on low incomes focus the need for affordable credit, mainly because the demand for low-cost provision is so high, and without which many families find themselves in unmanageable debt. Indeed, two studies have shown that credit, affordable or otherwise, for many low income households has become a necessity or second stream of cash flow used to pay for everyday products and services such as food, fuel and other bills.[22]

For such households, there are few choices – high cost, high pressure (but licensed) sub-prime lenders and informal and illegal borrowing. As mentioned above, accessing credit through the sub-prime market can impact on household finances as well as leave families in distress and unmanageable debt. Research on the sub-prime credit market, including provident lenders, pawn brokers, mail order retailers and furniture and white goods shops such as BrightHouse, have found strong evidence high APRs and additional costs, confusing and, often, punitive terms and conditions, a detrimental impact on family members' quality of life and associated stigma and families being drawn into an endless cycle of borrowing and debt.[23]

A nation-wide analysis was undertaken by Experian,[24] using local and national data, to identify the most at-risk wards, focussing on financial exclusion and need for affordable credit. The five wards in most need of affordable credit are:

1. Stonebridge
2. Harlesden
3. Wembley Central
4. Alperton
5. Willesden Green

Non-financial costs of exclusion

The full extent of financial exclusion is not only confined to monetary costs alone; there are, of course, well documented impacts on relationships within families, and individuals with many suffering from a loss of confidence and self esteem.

[21] Rowlingson, K and McKay, S (2015), Financial Inclusion: Annual Monitoring Report 2015, Birmingham: University of Birmingham, pg 6

[22] P Jones, *Access to credit on a low income,* The Co-operative Bank, 2001; Policis, *Transitioning high risk borrowers to affordable credit,* Department of Business, Enterprise and Regulatory Reform, 2008.

[23] Claire Whyley, *Financial Inclusion Evidence Review: The costs of credit exclusion and the benefits of access to affordable credit*, 2010

[24] Research undertaken in 2010.

Research in this area indicates that families with low incomes and high levels of debt often suffer from severe and long-term impacts to their physical health and wellbeing as well as their psychological and mental health. In one study, recipients of debt advice 'felt their debt problems had impacted adversely on their health.'[25] The same study revealed that 48% of respondents 'felt that debt had had a big impact on their health, and a further 43% felt their health had been affected *to some extent.*'[26] Moreover, a nationally representative sample of households with debt problems showed that 40% of debt problems had led to physical or stress-related ill-health.[27] And, when people with disabilities and debt problems are examined, eight in ten report that they 'felt their general health and wellbeing had suffered'.[28]

Worse still are the more severe forms of psychological impacts debt and financial distress can cause; research confirms that 'financial distress can range from relatively minor conditions, such as loss of self-esteem and insomnia, to severe depression and suicidal tendencies.'[29]

How people are feeling about their finances

Surveys taken at various points in the past ten to fifteen years tell us that people are struggling to make ends meet. In the early 2000s around five per cent of the population said they were finding it 'quite or very difficult to manage' financially, and around 21% were 'just about getting by' (combined total of 26%). In 2012-2013, ten per cent of the population said they were finding it 'quite or very difficult to manage' financially, and 25% were 'just about getting by' (combined total of 35%). This, however, is lower than the peak figures of 2009/10 when 14% of the population said they were finding it 'quite or very difficult to manage' financially, and around 28% were 'just about getting by' (combined total of 42%).[30]

As part of Brent's annual residents' attitude survey, from September to December 2014, we asked residents about their own outlook on household finances and the economy. In response to the question "How did the financial situation of your household change over the last 12 months?" 16% said better, 24% said worse. In response to the question "How do you think the financial situation of your household will change over the next 12 months? 22% said better, 15% said worse. The chart below (Figure 7) shows resident responses household finances over the past and next 12 months.

Figure 7: Brent Resident Attitude Survey: Household finances in the next 12 months

	Did change in last 12 months base 1987	Will change in next 12 months base 1817
Got a lot better	3%	5%
Got a little better	13%	16%
Stayed about the same	54%	49%

[25] P Pleasance, et al., *A helping hand: the impact of debt advice on people's lives,* Legal Services Research Centre, 2007 in C Whyley, *Financial Inclusion Evidence Review: The costs of financial distress and the benefits of access to debt advice*, 2010, pg 7
[26] Ibid, emphasis in original
[27] Ibid
[28] C Kober, *In the balance: disabled people's experience of debt,* Lenard Cheshire, 2006, pg 21 in C Whyley, *Financial Inclusion Evidence Review: The costs of financial distress and the benefits of access to debt advice*, 2010, pg 7
[29] C Whyley, *Financial Inclusion Evidence Review: The costs of financial distress and the benefits of access to debt advice*, 2010, pg 8
[30] Rowlingson, K and McKay, S (2015), Financial Inclusion: Annual Monitoring Report 2015, Birmingham: University of Birmingham, pg 5

Got a little worse	17%	10%
Got a lot worse	7%	5%
Don't know	6%	14%
Summary: Better	16%	22%
Summary: Worse	24%	15%

Although the combined figures for the next 12 months looks to be brighter for more Brent residents, 49% are predicting things to remain the same, whilst 14% 'Don't know' if their finances will improve or not.

Changes to welfare and benefits and the impact in Brent

An additional driver of financial exclusion, particularly among the poorest, working and non-working, is the recent changes to welfare benefits and the impact of these changes cannot be underestimated. There are several elements to these reforms that are expected to – and in many cases is already – have a substantial impact on Brent residents, especially those on low incomes.

The Welfare Reform Act 2012 made provisions for a benefit cap of £500 per week for a family (£26,000 a year) and £350 per week for a single person with no children (£18,200 a year), placing increased pressure on already struggling individuals and families.

The Welfare Reform and Work Bill, due to come into force in 2016, will lower the level of the cap as follows:

- From £26,000 per year for families and £18,200 for single people to £23,000 for families and £15,410 for single people in Greater London; and
- From £26,000 per year for families and £18,200 for single people to £20,000 for families and £13,400 for single people outside London.

Although the number of capped households is constantly in flux, it is estimated that nation-wide there are around 50,000 households are currently capped. It has been estimated that an additional 75,000 will be caught by this further reduction in benefits when it is introduced in 2016.

The additional cap is likely to impact on London boroughs more acutely as the cost of living - especially housing costs - are so much higher than in other parts of the country. Currently, there are 957 capped households in Brent, with the vast majority (817) being in families and the rest (140) single households. When the reduction is introduced, it is estimated that 2,904 households be affected, with the distribution being split more evenly with 1,427 families and 1,477 single households affected; this represents a 75% increase for families and a 955% increase on single households.[31]

Under-occupancy penalty

The under-occupancy penalty or 'bedroom tax' introduces a new set of criteria to benefits claimants living in social accommodation. In effect, the total household composite is now being looked at for the purposes of establishing whether a household is under-occupying

[31] Figures based on preliminary modelling of potential households at risk, September 2015.

their property. If a family is deemed to be under-occupying their property, a family must move to a smaller property or face a reduction in Housing Benefit of 14% for one additional (spare) room and 25% for two or more additional (spare) bedrooms. In Brent, the number of households who are deemed to be under-occupying is approximately 1,700.

Universal Credit

Universal Credit (UC) is the umbrella term for all benefits payable which is allocated to a household (not individuals) package of benefits. The following benefits are now included in the single UC payment:

- Income Support;
- Income Based Job Seekers Allowance;
- Income Related Employment and Support Allowance;
- Housing Benefit; and
- Child and Working Tax Credits.

Crucially, Universal Credit is paid as a single monthly payment one month in arrears and will include housing benefit, making a transactional bank account a pre-requisite of claiming UC. As with the benefit cap and under-occupancy penalty, the aim of the reform is to simulate a household in employment with income paid into one account, which must then be allocated to cover all bills payable, including rent and council tax.

Financial Inclusion and the DWP Delivery Partnership Agreement

Brent was one of six Tranche 1 local authorities to have UC rolled out in 2015. As part of the UC roll-out, the DWP aimed to develop a Delivery Partnership Agreement (DPA) with each local authority to mitigate against the three main risks identified by the DWP to delivering UC safely. The three risks are:

- digital access;
- personal budgeting support; and
- housing.

This agreement has allowed the DWP to commission additional knowledge and administration activities (from the local authority) required to process cases involving HB claims and ensure tight timescales on any work flowing back to the DWP. It has also allowed some funding to be provided for financial and digital inclusion work with UC claimants.

UC claimants in Brent

In order to prepare for the changes being introduced through UC, the Citizens Advice Bureau conducted its own research to determine how well equipped households would be to deal with the above changes. Published in its guidance, *Universal credit managing migration pilot,* the survey's results show that 92% of all CAB service users would need "support to manage the transition, in one or more of the following capability areas: monthly payments, budgeting, banking, staying informed and getting online."[32]

From April to August 2015, the number of UC cases in Brent is 629, far below the DWP's estimate of 1,500 over the first full twelve months. This could be for a number of reasons but may mean that migration (of the more complex cases) may be slower than expected. Of the

[32] Citizens Advice Bureau, *Universal credit managing migration pilot, December 2013*, p2

629 cases, only 22 have been referred for Personal Budgeting Support, and even in such cases, many hadn't realised why they had been referred for support.

Impact of UC on those in in receipt of Housing Benefit (HB)
When taking HB into account, Brent currently has more than 28,384 working age claimants, which is in the top tier for local authority areas that includes the London Borough of Tower Hamlets and cities of Birmingham and Edinburgh. At some stage, all claimants will be transferred to the UC platform, though exact dates have not been released by the DWP.

Moreover, most tenants receiving Housing Benefit, regardless of landlord or tenure type, have their benefits paid direct to their landlord. With Universal Credit, the single monthly payment will be paid direct to the main household claimant, which will include a specified amount (determined centrally by the DWP) for housing costs[33]. Therefore, it will be essential to work with social housing partners to ensure that all residents are capable of budgeting and paying their rent on time.

[33] Although this will be the normal approach with UC, exceptions will apply to allow payments to be made directly to landlords.

DEVELOPING A 'WHAT WORKS' APPROACH TO TACKLING TO FINANCIAL EXCLUSION

Building on the successful 'ABCDEF' methodology designed by Toynbee Hall, we will employ a 'what works' approach to the particular challenges of financial exclusion. This strategy and the accompanying action plan will take a holistic approach to maximise opportunities and mainstream services.

Advice – This includes generalist and specialist advice to help people to deal with problems of debt, legal problems, money management, housing and fuel poverty. In addition to in-house advice services, Brent also supports a number of organisations to provide these services across the borough; this can be from the Citizens Advice Bureau (CAB) offices, in children's centres. A comprehensive review is being carried out to ensure advice and guidance matches Brent's priorities and is delivered in the most appropriate and cost-effective way. Many housing providers are also providing advice on benefits, debt and money management. We will join-up advice providers to create an advice partnership to ensure residents have access to a wide range of advice and guidance.

Banking – Financial products and services are now a basic function of everyday life. As shown above, those excluded often find themselves paying more for basic services such as cheque cashing. Transactional banking (the ability to make electronic transfers) is now a requirement for most employers, and with the roll out of UC, the DWP will also require a bank account for making benefits payments. We will seek to develop a Community Banking Partnership, a network of financial services providers in Brent to ensure residents have access to mainstream products and services.

Credit (Affordable Loans) – Those experiencing financial exclusion also struggle to access affordable credit, making high cost (or illegal) credit the only means of obtaining a loan. Easily accessible and low cost alternatives need to be developed and advertised more widely across the borough. Credit unions are perhaps the best example of low-cost provision with some offering a payday loan-like product. There are a few credit unions operating in Brent. More is needed to help raise residents' awareness of credit unions in Brent and what loans they may be able to offer. Some local authorities have gone in partnership with local credit unions, and in doing so have raised their profile and now offer a one-stop shop for customers. We will explore more ways of working with credit unions as part of the wider Community Banking Partnership.

Debt – The other side of credit is debt. Residents can find themselves in high levels of debt, often to multiple lenders, and sometimes with unrealistic repayment plans. We will work with our advice providers and other partners to ensure residents are appropriately supported deal with their problem debts. The council will also develop a new approach to assist those with multiple debts (to the council) to access appropriate advice and guidance at an early stage.

Deposits (Savings) – Developing a culture of saving is crucial to enabling families on low incomes to prepare for large, regular expenses such as Christmas and better withstand unexpected expenses such as home appliance replacements. There is also growing research on the psychological advantages linked to regular saving. Brent has been selected to take part in a scheme in partnership with the Money Advice Services to increase the number of regular savers.

Employment, Education and Empowerment – Employment is a key aspect of this strategy and informs the work of other council priorities, including efforts to minimise the impacts of welfare reform. The education and training delivered through this strategy will have a strong a focus on building up people's understanding of money management and financial products and services (financial literacy). Perhaps more importantly, however, it will empower them to make the most appropriate choices (financial capability) for their family, engendering resilience. Digital by design means that digital inclusion is also necessary for individuals to reap all the benefits of financial inclusion, enabling them to keep up with finances through online banking and search the internet when shopping for the best deals. We will be looking to develop a rolling programme of digital outreach to up-skill residents and enable greater digital inclusion.

Food and Fuel – Since the change in classification of fuel poverty, using the Low income, high cost indicator, we know that 14% of Brent residents now live in fuel poverty, up 4% from using the 10% definition. Since the economic crisis in 2008, the number of Brent residents requiring assistance from food banks has soared, leaving many households to choose between heating and eating. As evidenced in this strategy's action plan, fuel poverty will need to be addressed in tandem with financial inclusion. We will develop a new approach to tackle fuel poverty, utilising legislation to target those not meeting efficiency standards and actively promote retrofitting. We will also need to ensure adequate support is provided to Brent's food banks who are already working at capacity. We will support the work of Brent's food banks through supporting volunteers and holding regular collections at points across the borough to increase available supplies.

STRATEGIC OBJECTIVES AND OUTCOMES

Based input from our consultation exercises, and from the ABCDEF methodology, the four strategic objectives that this strategy and the accompanying Action Plan seek to address are:

1. Helping residents to move from unemployment or low skill/pay employment to sustainable and fulfilling employment;
2. Helping residents overcome high levels of debt and promote responsible borrowing;
3. Improve access to mainstream financial products and services whilst encouraging residents to build their awareness of financial services and make appropriate choices with their finances; and
4. Maximising opportunities for delivering financial inclusion through working in partnership.

Strategic Objectives	Priority Outcomes
1. Help residents to move from unemployment or low skill / pay employment to sustainable and fulfilling employment	• More residents (including young people) will be helped into work • More residents will earn the London Living Wage • More residents (including young people) will be helped into further education, training or apprenticeships • More residents (including young people) will learn valuable skills to help them progress • More residents will get the benefits and credits they are entitled to
2. Help residents overcome high levels of debt and promote responsible borrowing	• More residents will have access to a full range of advice and guidance • More residents will become aware of illegal and high-risk borrowing • More residents will become aware of the health and mental health issues related to debt • Fewer residents with multiple or problem debt
3. Improve access to mainstream financial products and services whilst encouraging residents to build their awareness of financial services and make appropriate choices with their finances	• More residents will have access to basic (transactional) bank accounts • More residents will have access to affordable credit options • More residents will be saving regularly • More residents (including young people) will improve their financial literacy and capability • More residents will be able to manage their money online if they want to • More residents will improve knowledge of changes to benefits
4. Maximising opportunities for delivering financial inclusion through working in partnership	• Improved co-ordination of financial inclusion activities • Increased number of local partners, including housing providers • More advice groups linked to Brent Advice Matters • Develop into a branded partnership that is recognisable to residents

	• Increased number of volunteers assisting providers

DELIVERING IN PARTNERSHIP

This strategy proposes that a high level Financial Inclusion Partnership be created and that the council facilitate working groups as far reasonably practical. At the strategic level, a representative board should be established which would report quarterly to the Partners for Brent (Local Strategic Partnership) against an agreed Action Plan. The need for such a strong partnership structure, with clear governance is borne out of talks with current providers and various council departments, who are keen to work in partnership but do not have capacity to manage this amount of work independently. Operationally, it is proposed that a Financial Inclusion Coordinator be appointed to set up the partnership and develop the work plan, develop effective partnership pathways and scope new projects to be undertaken by the partnership. The Coordinator will also be responsible for working with partners to develop a set of targeted performance measures to align with the strategic Action Plan that accompanies this document.