

financial inclusion action plan

PART OF THE SCOTTISH EXECUTIVE'S *CLOSING THE OPPORTUNITY GAP* APPROACH TO TACKLING POVERTY



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Produced for the Scottish Executive by Astron B38129 1/05

Published by the Scottish Executive, January, 2005

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ministerial foreword



Promoting financial inclusion is part of the Scottish Executive's Closing the Opportunity Gap approach to tackling poverty and deprivation. It needs to be high on the list of priorities for Community Planning Partnerships. It links up with work to regenerate disadvantaged neighbourhoods and empower local communities, and to tackle other issues that relate to poverty, such as inequalities in health and education. It should also be part of the activities of financial institutions and a whole range of voluntary organisations and social enterprises. This is a shared agenda, with the Executive, and with the Westminster Government.

What do we mean by financial inclusion? Debit cards, internet banking and direct debit facilities are now common, convenient and cheap ways of paying for goods and services. Yet there are still people who are excluded from using these services. People who are losing out as they are unable to take advantage of the benefits offered by the range of financial products available.

11% of Scots do not have a bank account. This figure can rise to 18% for those on a low income. That can mean a whole range of difficulties. People may be unable to borrow at a fair rate, save for necessities or make provision for their future. In addition they may face significant disadvantages such as being unable to start a job or set up home.

In Scotland 37% of households have no savings and, for many, credit is the only way that they can budget for larger purchases. Today, personal debt is at a record high and borrowing without a bank account means using high interest lenders. Many of the people in this position live in our poorest communities and find themselves without choice or access to basic financial services, making it even more difficult to find routes out of poverty.

Organisations of many kinds are working to tackle financial exclusion. Some exciting new activities are already underway, such as budgeting and bill paying accounts operated by credit unions. Financial education has an important part to play and there are new schemes which help people learn to manage their money better and understand the financial services on offer.

This action plan sets out the outcomes we want to see: more people with savings, bank accounts, home contents insurance and access to affordable credit if they need to borrow. It says how we shall measure success and demonstrate sustained improvements over time. The action plan has been developed alongside Communities Scotland and incorporates the work of Departments right across the Scottish Executive. It aims to give a lead to the key players in this field across Scotland. It says what the Scottish Executive and Communities Scotland plan to do over the next 3 years. It highlights some of the creative work on financial inclusion that is already going on and sets out the UK context. Much of what we need to do in Scotland will be achieved by local communities and organisations of all kinds working together. I believe that this action plan is a step towards this important goal.

A handwritten signature in black ink that reads "Malcolm Chisholm". The signature is written in a cursive, flowing style.

Malcolm Chisholm, MSP
Minister for Communities



introduction and purpose of the plan

In this action plan, the Scottish Executive sets out:

- What we mean by financial inclusion
- Why financial inclusion is part of our Closing the Opportunity Gap approach to tackling poverty
- What the Executive and Communities Scotland are already doing to promote financial inclusion
- What else the Executive and Communities Scotland will do between now and 2008
- What other key players such as local authorities and the financial services sector can and should do
- The UK Government's approach as announced by the Chancellor of the Exchequer in his Pre-Budget report on 2 December 2004. Annex A explains the target, set jointly with the banks, to halve the number of adults in households without a bank account and to make significant progress in that direction within 2 years. It also describes the intention to fund new sources of affordable credit for people who are financially excluded
- How action on financial inclusion in Scotland will be resourced, delivered and reviewed. There will be further guidance on these points when new funding becomes available in 2006-07

this action plan is for key organisations with an active interest in financial inclusion

These include:

- Local authorities
- Other Community Planning partners
- Banks and other financial institutions
- Credit unions
- Organisations giving money advice and other advice to consumers
- Social economy organisations as well as registered social landlords, voluntary organisations, and other services that work with people and communities vulnerable to financial exclusion

The Executive wants to give a lead to all of these partners, who will help to increase financial inclusion in Scotland. The action plan explains what we are already doing and how we will develop and extend our activities in the next 3-4 years.

The action plan also sets out what the key players above can do. Sometimes they will act alone, but very often the greatest impact comes when organisations work together. The plan aims to accelerate the pace of this joint working.

There is some action already and the plan includes examples of good practice that illustrate key points, in Scotland and elsewhere.

We want to see more consistent attention to financial inclusion across Scotland, coupled with innovation where it is required, to meet local needs. The plan will play an important part in making all of this happen.



what is financial inclusion?

A definition of financial inclusion: access for individuals to appropriate financial products and services. This includes people having the skills, knowledge and understanding to make best use of those products and services. Financial exclusion is often a symptom of poverty as well as a cause. The focus of Scottish Executive policy is to improve financial inclusion for vulnerable groups of people and communities and at key transition points in people's lives.

In Scotland the problems of financial exclusion include:

- 11% of adults don't have a bank or building society account. 23% of lone parent households don't have an account.

This means people:

- can't give a prospective employer details of an account into which to pay their salary or wages
- can't take advantage of discounts available for paying gas and electricity bills by direct debit

- Only 42% of people living in households with an income under £10,000 pa have any savings or investments.

This means people:

- may have to take out loans at high rates of interest to help with domestic crises or to buy items such as a washing machine
- are vulnerable to loan sharks and illegal lending

- 40% of people living in rented accommodation don't have home contents insurance.

This means people:

- can't claim for damaged carpets or furniture, for example if their house is flooded

- Up to a third of households with an income under £15,000 pa are in arrears with consumer credit or household bills. They are 3 times more likely to be in arrears than better off households.

This means people:

- may have to borrow to help pay off arrears
- may be vulnerable to depression or other mental health problems, because of their financial difficulties
- may feel it is not worthwhile going into or sustaining employment, because they will then have to repay what they owe more quickly and will not be able to manage day to day living expenses

CASE STUDY 1: The right advice at a difficult time

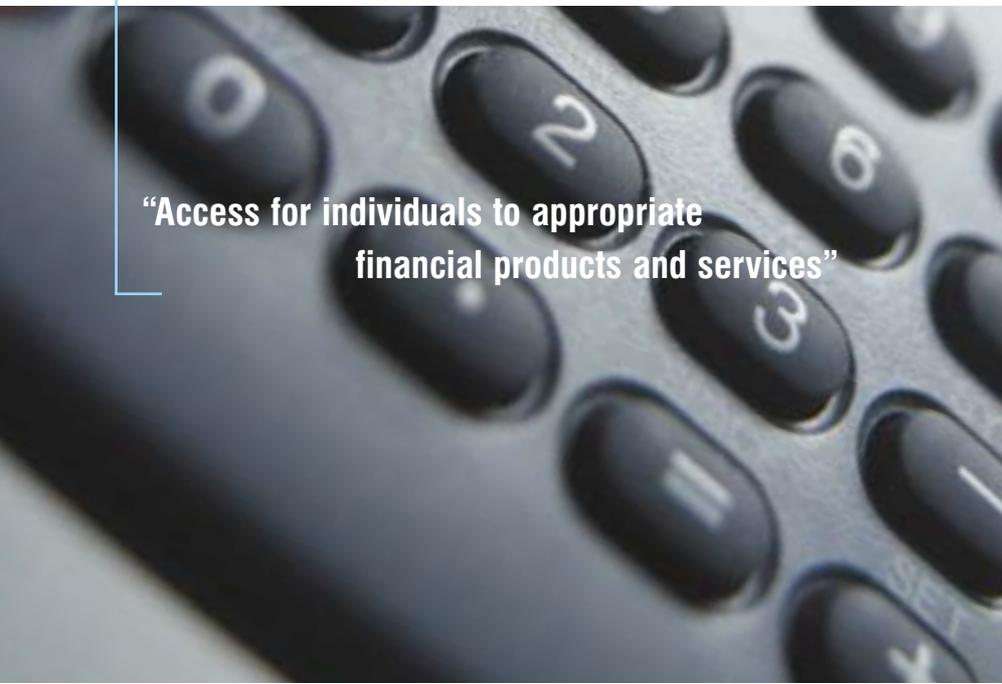
Money Advice in South Ayrshire

Mr & Mrs T took on various credit commitments while both in employment but Mr T's health deteriorated and he was unable to continue to work. With insufficient funds in the bank standing orders were not paid, cheques bounced and the bank imposed charges for an unauthorised overdraft. Mrs T increased her hours at work and took on another part-time job in an attempt to increase their income to pay all their outgoings. Eventually Mr & Mrs T went into their bank and were given one of South Ayrshire's business cards highlighting Trading Standards' free and impartial debt counselling service.

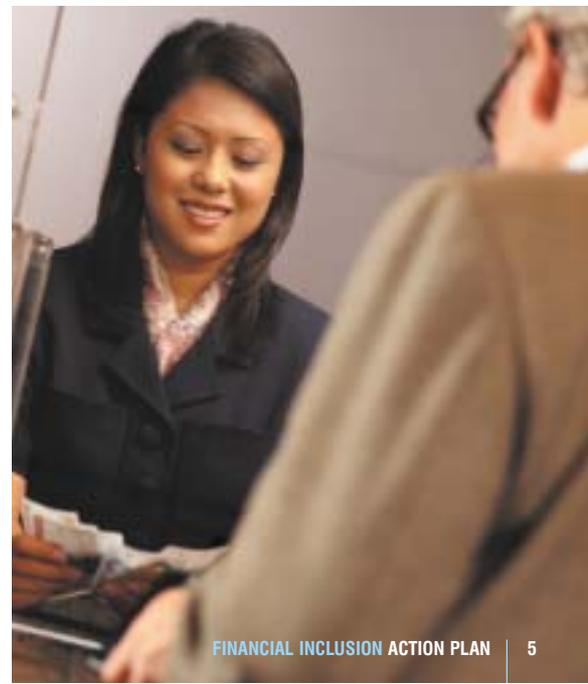
Mr & Mrs T contacted Trading Standards and met with an adviser who discussed in depth their financial problems. The adviser helped the couple to claim further benefits as Mr T's health had deteriorated further, and negotiated reduced repayments to all creditors. A repayment programme was successfully agreed with creditors and Mr & Mrs T maintained payments. The circumstances were regularly reviewed and through time the debts were paid in full.

"This couple heard about our service as they were given our business card as part of our marketing campaign. Following the campaign our case level leapt to over 1,100 cases with debts totalling nearly £7 million. Due to this success we are repeating the exercise this year and have started with a pre-Christmas message."

(Carole Parker, South Ayrshire Trading Standards.)



"Access for individuals to appropriate financial products and services"



financial inclusion is an integral part of the Executive's anti-poverty strategy

Financial inclusion is part of the Executive's Closing the Opportunity Gap approach to overcoming poverty in Scotland. Closing the Opportunity Gap includes our aims to:

- **Prevent** individuals or families from falling into poverty
- Provide **routes out of** poverty for individuals and families
- **Sustain** individuals or families in a lifestyle free from poverty

This approach recognises the close two-way links between poverty and deprivation on the one hand and being unable to find and use appropriate financial products and services on the other. The Executive's Closing the Opportunity Gap objective for improving financial inclusion is:

- **Reducing the vulnerability of low income families to financial exclusion and multiple debts – in order to prevent them becoming over-indebted and/or to lift them out of poverty**

This objective is supported by our target to:

- **By 2008 increase the availability of appropriate financial services and money advice to low income families to reduce their vulnerability to financial exclusion and multiple debts**

Our other 5 Closing the Opportunity Gap objectives are:

- Increasing chances of sustained employment for vulnerable and disadvantaged groups
- Improving the confidence and skills of the most disadvantaged children and young people
- Increasing the rate of health improvement for people living in the most deprived communities
- Regenerating the most disadvantaged neighbourhoods, so that people living there can take advantage of job opportunities and improve their quality of life
- Improving access to high quality services for the most disadvantaged groups and individuals in rural communities

These objectives complement and reinforce each other. For example, people's employability can improve if their health is good. Financial exclusion can be a barrier to people improving their job prospects. Regenerating local communities includes making sure people living there have good access to financial services, appropriate to their needs.

Promoting financial inclusion contributes also to the Executive's aims:

- Growing the economy
- Delivering excellent public services
- Building strong, safe communities
- A confident, democratic Scotland



“Regenerating local communities includes making sure people living there have good access to financial services”

CASE STUDY 2: Community partnership in action

Wester Hailes Community Banking Agreement

The Wester Hailes Community Banking Agreement is a partnership between the Wester Hailes Representative Council and Halifax Bank of Scotland (HBOS) to address the extreme levels of financial exclusion faced by many residents living in west Edinburgh. It does this by bringing one of Scotland's largest and most established businesses closer to the communities of west Edinburgh and focuses on five broad thematic objectives consisting of: increasing access to bank accounts, improving financial literacy, developing a savings and loans scheme, support for entrepreneurship and support for local community organisations.

Fundamental to the establishment of this partnership was the energy and drive of community representatives themselves, who identified a problem on the ground and took innovative steps to creating a solution.

what action is needed?

The Executive and the UK Government will take some of the action needed to reduce financial exclusion and achieve the relevant Closing the Opportunity Gap objective and target. But action by others is also needed. Some of this is about preventing problems from arising. Some focuses on transition points and changes in people's lives, when they particularly need information, help or support.

Activities that prevent financial exclusion include:

- Financial education in schools and the Determined to Succeed (enterprise in education) strategy that will better prepare young people for the world of work
- Adults being competent and confident in both literacy and numeracy in order to make appropriate choices of financial products
- People having access to affordable methods of budgeting and making payments
- People having savings with attractive rates of interest, even on low balances
- Having a good pension to look forward to in later life
- Information about financial matters being available in a suitable format for people who may need extra help, for example older people, minority ethnic communities and young people leaving care

Routes out of financial exclusion include:

- Advice on managing problem debt and the other, interlinked difficulties that people often face
- Protection from loan sharks
- Information about where to go to get expert help when people are in difficulty

Sustaining and maintaining financial inclusion includes:

- Access to affordable credit eg through credit unions
- Access for people in marginalised groups to a range of mainstream banking and savings products
- Everyone having home contents insurance
- Individuals and communities owning and building on assets

All our action should be “equality-proofed”, to make sure that solutions work equally well for all groups within the community. Some have particular issues about using financial services, for example older people, minority ethnic communities, disabled people and people with mental health problems. The support services they get must cater for their particular needs.

CASE STUDY 3: A mix of services tackling financial exclusion

Financial Inclusion Newcastle Ltd

Financial Inclusion Newcastle (FIN) aims to improve access to savings and affordable loans in some of Newcastle's most deprived areas.

FIN supports the growth and development of 4 local credit unions, and delivers additional services via the credit union premises. The services include; money and debt advice in partnership with the local Citizens Advice Bureau; special loans to assist residents out of high interest lending; access to basic bank accounts; and support for those wishing to take up self employment (in partnership with the City Council.)

In partnership with Newcastle College, and the Citizens Advice Bureau, FIN has developed a range of materials designed to raise financial awareness. The material will have the capability of being delivered in the community as "stand alone" modules to enhance life skills, as well as in the more structured environment of the college, leading to accredited basic skills qualifications. Financial awareness sessions are already taking place within the community and that experience is being used to inform material development.

"People must feel empowered and informed so that they are able to take control of their own financial affairs and the most effective way to do this is through education."

(Dawn Badminton-Capps, FIN)

**"Very often the greatest impact comes
when organisations work together"**



what the **scottish executive** is already doing

In A Partnership for a Better Scotland, published in May 2003, the Executive set out its commitments for the next 4 years. These included:

- Supporting an extension of money advice services
- Implementing the Debt Arrangement and Attachment (Scotland) Act 2002
- Supporting credit union development and community banking arrangements
- Investigating the feasibility of community based insurance schemes
- Encouraging local enterprise and trading schemes (LETS)
- Working with the Department for Trade and Industry in Whitehall to tackle harassment by loan sharks and introduce fairer credit schemes

The Executive and Communities Scotland are already doing a number of things to deliver on these commitments, and will continue to do so.

Financial services

- Funding credit unions to do more to address financial exclusion through the £1.1m Scottish Credit Union Capacity Fund
- Supporting urban post offices via a £2m development fund to help them to remain viable and continue to provide their valuable services in deprived urban areas
- Encouraging the delivery of other services through the rural post office network which can contribute to financial inclusion.
- Encouraging social landlords to operate accessible home contents insurance schemes for their tenants
- Running the mortgage to rent scheme. This allows people at risk of legal action that might make them homeless, to change from home ownership to a tenancy in the social rented housing sector
- Discussing funding with the national bodies in Scotland for LETS and timebanks

Advice and support

- Putting £5m pa into frontline money advice services from 2005-06 onwards
- Setting up a national Debt Arrangement Scheme, to give people in multiple debt protection from court enforcement and bankruptcy while they sort out their money problems
- Supporting the national loan sharks task force based in Glasgow
- Funding Citizens Advice Scotland and Money Advice Scotland to run MATRICS (Money Advice, Training, Resources, Information and Consultancy Services) which provides training and consultancy for the money advice field
- Through MATRICS, training and approving specialised money advisers for the Debt Arrangement Scheme
- Funding money advice for people who may have difficulty using mainstream services, for example people with mental health problems or learning disabilities, minority ethnic communities, lone parents and young people
- Providing money advice for people who are making the transition to employment
- Developing housing information and advice standards so that these apply also to money advice services, and defining specific money advice competences for advisers



Financial education

- Supporting the Scottish Centre for Financial Education to improve financial education in schools
- Determined to Succeed, our strategy for more and better enterprise in education, is helping prepare young people better for the world of work
- Running projects through Citizens Advice Bureaux to find ways to deliver financial education to people with particular needs, for example homeless people, young people leaving care
- Through Learning Connections in Communities Scotland, supporting the local adult literacies partnerships to provide literacy and numeracy learning opportunities

The Executive aims through these activities to complement the UK Government's financial inclusion activities, which are listed at Annex A. The new goal agreed with the banks: to halve the number of adults in households without a bank account, is particularly important.

CASE STUDY 4: A growing Scottish credit union

East Kilbride Credit Union

Credit unions have a role to play in tackling financial inclusion. They offer low-cost loans and access to affordable savings. The Executive's £1.1m Scottish Credit Union Capacity Fund, launched in September 2003 aims to support growing credit unions to work towards self-sufficiency and become exemplars for the movement. To date over £600,000 has been paid out in direct grants with over 30 credit unions benefiting from funding.

East Kilbride Credit Union is a successful credit union with over 3,600 members. The union recently extended its common bond to cover an area of deprivation and secured a grant from the Capacity Fund to enable it to open a High Street collection point in the new area providing its much needed services and significantly increasing its opening hours.

The new premises are in a High Street location and benefit from already having the reputation as a financial outlet as they previously housed a mortgage broker. In the first 3 weeks of opening, the credit union saw its weekly membership intake increase by 250% to 140, and recruited 5 new volunteers. The union is now looking to develop additional members' services including a budgeting and bill paying account.

"The Capacity Fund award came just at the right time and made it possible for us to refurbish our new premises, upgrade our IT systems and double our opening hours. Since opening in Greenhills there has been a great response from the local community with many new members joining our credit union. We are keen to continue to grow and serve our members and are developing new ways of working to meet their needs. An example of this is a home-visit service for our disabled and less mobile members."

(Bob McAteer, East Kilbride Credit Union)

what else will the **scottish executive** do?

From April 2006, additional funding of £5m per annum will be available, as part of the overall Closing the Opportunity Gap approach. These new resources will be allocated mainly to support financial inclusion in areas with the greatest current problems. Some resources will continue to be available nationally, however, for more widespread initiatives and innovative approaches.

The Executive will issue detailed guidance on the use and monitoring of existing and new resources for financial inclusion. We expect to see funding used locally within the community planning and regeneration context. It should build on existing efforts towards meeting the Closing the Opportunity Gap financial inclusion target. This will complement use in Scotland of resources from the UK Government's financial inclusion fund. The Executive will announce how its £5m funding will be allocated by summer 2005.

The Executive and Communities Scotland will also:

Financial services

- Promote sustainable new approaches to financial inclusion, for example loan guarantee and debt repayment schemes, community development finance institutions that lend to individuals
- Support local communities to develop community banking and other initiatives to suit their own needs
- Build on the work to improve the viability of the Scottish post office network by supporting post offices as local community hubs in which a range of services can be delivered including those promoting financial inclusion eg credit unions or community banking services
- Do some action research on the particular problems of rural financial exclusion
- Set up new systems for Executive and other public sector funding for credit union development, in the light of decisions from the European Commission on credit union funding
- Provide further encouragement to tenants of social landlords to take up home contents insurance
- Through Communities Scotland, Scottish Federation of Housing Associations (SFHA) and other partners, support registered social landlords to contribute to financial inclusion

Advice and support

- Encourage the provision of advice that addresses all the interlinked difficulties people with problem debt may face. Foster links and referrals, where necessary, between services offering expert money advice, housing advice, legal advice, welfare rights advice and support for people to improve their employability
- Ensure that the development of quality standards for money advice is fully integrated with the emerging national quality framework for legal advice and information
- Develop common IT infrastructure for money advice and other advice services, building on existing good practice
- Ensure that frontline money advice services improve the ways in which they meet the needs of people from marginalised and vulnerable groups and communities

- Explore what can be done, nationally and locally, to improve recruitment and retention of staff involved in services that offer advice and tackle financial exclusion in other ways

Financial education

- Develop the current work of the Scottish Centre for Financial Education and others to improve financial education in schools, in line with the review of the 3-18 curriculum announced in November 2004, and in conjunction with the FSA's financial capability strategy. This will be based on experience of what works in Scotland and will build on the work of Scottish bodies such as the Scottish Centre for Financial Education and the Financial Education Partnership
- Support further innovative approaches to financial education, for example in community and workplace settings
- Through Learning Connections support training to raise awareness about adult literacies for front line staff in financial institutions and money advice services
- Set an example as an employer by promoting financial awareness amongst our staff at all stages of their careers

“From April 2006, additional funding of £5m per annum will be available”



CASE STUDY 5: A one-stop solution to financial exclusion

Fife Financial Inclusion Partnership

Fife Council is taking forward this project with the aim of providing practical solutions for people facing significant debt and borrowing problems. It will combine quality advice services that are already being delivered with financial education to assist people to make informed choices, together with access to low-cost loans and savings opportunities with credit unions, access to banking facilities and building capacity for employment, education and self employment opportunities. The provision of small loans with low interest rates and education programmes seeks to change the lifestyle of beneficiaries.

what can local authorities do?

Local authorities are key partners in Closing the Opportunity Gap and, within this, in promoting financial inclusion. They have a role in their own right and through their lead role in community planning partnerships and regeneration outcome agreements. This is why a high proportion of the Executive's funding for financial inclusion is channelled through Councils: both to spend on their own services and to invest in services delivered by other organisations, to meet local needs. As above, new funding will be available for financial inclusion from April 2006, to areas with the greatest current problems. The Executive expects Councils to take the lead in planning the use of all the relevant funds and to do so jointly with their partners.

Local authorities can fund and encourage other local organisations to provide services that support financial inclusion. They can also encourage the role of trusted intermediaries, set out on p22 of this plan under *who else should be involved?* Councils can support innovative approaches to services, which may include the use of the Power to Advance Well-Being. They can embed financial inclusion in a range of related activities and contracts for services. Councils should work together across local authority boundaries where there are advantages in doing so, perhaps to meet specialist needs of residents.

Local authorities can do the following and some action along these lines is already underway:

Financial services

- Support local communities in the most deprived neighbourhoods, and other vulnerable groups, to avoid using inappropriate financial services, work out what services they do want, and make arrangements with financial institutions and others to deliver these
- Review the particular needs for financial services of remote, rural communities and devise innovative ways to meet them
- Support local credit unions, including study groups formed to look at setting up a credit union
- Provide home contents insurance schemes tied to rent
- Review the terms of their own banking facilities to ensure their banking partners actively meet the needs of people who are financially excluded

Advice and support

- Provide money advice themselves, but also assess local needs for such advice, including needs that are currently unmet. Plan for these, including the needs of marginalised and vulnerable groups
- Support local communities when loan sharks are prevented from operating, by arranging for advice and promoting alternative forms of lending
- Support holistic advice and encourage joint working where appropriate between specialist advice services, for the benefit of the client eg advice on debt, housing matters, employability, welfare rights, legal matters, consumer protection, adult literacies



“Local authorities are key partners in Closing the Opportunity Gap”

- Build into corporate debt recovery strategies some signposting to money advice services, for people who owe arrears to the Council

Financial education

- Support financial education in schools, in line with local needs and the FSA's overall approach to improving financial capability
- Offer enterprise in education activities in schools that include some financial education
- Build financial education into approaches to community learning and development outwith school settings

CASE STUDY 6: Innovative approach to channelling money advice

Young Person's Money Advice Project

The City of Edinburgh Council is undertaking a 2-year project to target money advice at young people. The service, funded for 2 years by the Scottish Executive, targets young people in the City via a comprehensive marketing campaign and links with young people's organisations.

The project aims to explore innovative ways of delivering a debt advice service to young people aged 16 - 25. This includes a facility which enables young people to contact an advisor via text-messaging, and a dedicated young person's advisor who can travel to different 'young' venues across the city.

The project is one of a number looking at the money advice needs of different vulnerable groups such as lone parents, the long-term unemployed, and minority ethnic groups. The projects will be evaluated by the Scottish Poverty Information Unit at Glasgow Caledonian University.

“This project is reaching out to a section of society who need help more than most but who are often very reluctant to come forward and ask for it. The texting service in particular is proving popular and seems to fit perfectly with how young people are communicating these days.”

(Kevin Mapstone, YP Debt Adviser)

what can banks and other financial institutions do?

Banks and other financial institutions make a valuable contribution nationally to the UK Government's financial inclusion agenda (see Annex A for examples of where they are involved with HM Treasury, FSA and DTI activities). There are common interests with government, for example the business of the financial services sector benefits from better-informed and more confident customers.

The Scottish banks have set a framework with the Executive for their action on financial inclusion since 1999. There has been much useful work in line with this framework, for instance the educational activities of the Financial Education Partnership (see case study). In addition, banks have, in Scotland, funded financial information for lone parents, worked with excluded young people and homeless people and provided services in partnership with deprived communities and intermediary bodies such as registered social landlords.

The Executive, in discussion with the financial services sector, now wishes to update the Scottish framework as follows. The Executive is keen that a wide range of financial institutions are involved in financial inclusion, both nationally and locally and is talking with the sector about how this can be achieved. These discussions complement those at UK level that have led to agreement on the target to reduce the number of adults without a bank account.

Key areas for action by the financial services sector in Scotland are:

Financial services

- In line with the UK Government and Executive approaches, support new forms of affordable credit in Scotland eg loan guarantee funds, community development finance institutions (CDFIs) that lend to individuals. This is likely to involve partnerships with local authorities, registered social landlords and other community-based organisations
- Work with local authorities, community organisations and others in the most deprived areas, and in remote rural locations, to support community banking, mobile services and other local initiatives to improve accessibility of services
- Continue to provide financial products that are sufficiently flexible to support social enterprises and increase engagement with the social economy sector through negotiating investment in developments

Advice and support

- Continue to contribute on a UK-wide basis to specific financial inclusion initiatives that have benefits for Scotland, such as National Debtline

Financial education

- Support financial education within schools: the sector to take part in discussions about their contribution in partnership with others involved. These discussions will build on the FSA's national strategy
- Continue to provide financial information and education for marginalised and vulnerable groups in Scotland outwith school settings. New initiatives and approaches will be informed by what we learn from the Executive's new work in this area, through Citizens Advice Scotland and others

CASE STUDY 7: Providing financial education in schools across Scotland

Financial Education Partnership

The Financial Education Partnership is an initiative coordinated by the Chartered Institute of Bankers in Scotland, funded by the financial services sector, which provides workshops in financial capability to schools across Scotland. The workshops are delivered by financial services staff on topics such as dealing with money, budgeting skills, and managing personal expenditure, as well as looking at future events where financial preparation might be required.

‘If young people are to develop and prosper in a changing world they need opportunities to develop financial capability. The Financial Education Partnership can help provide schools with excellent facilitators and resources to deliver a high quality financial education’

Jim Lally, Director, Scottish Centre for Financial Education, Learning and Teaching Scotland

“Banks and other financial institutions make a valuable contribution nationally to the financial inclusion agenda”



what can money advice and other advice services do?

Money Advice Services are delivered through local authorities, voluntary organisations including Citizens Advice Bureaux, and the private sector. Improving the quality and quantity of money advice is a key focus as professionalisation of the sector grows and demand for the services provided increases. This may mean that the systems and infrastructure behind such services need to adapt to cope with the different demands placed on it, and the Executive is keen to support these transitions.

Traditionally money advice services have concentrated on giving advice to their clients about managing large and pressing amounts of debt; however there is also now a desire to enable advisers to help prevent such problems arising, given their experience of dealing with the sharp end of debt.

The Executive would like to see money advice services:

- Make links to other advice services in order to meet clients' needs if the organisation does not itself offer advice on a range of problems. Refer clients elsewhere for specialist advice if required. This could include guiding people towards adult learning, especially adult literacy provision
- Develop expertise in meeting the needs of marginalised and vulnerable groups for money advice
- Help clients to avoid their debts escalating to the point where they become unmanageable
- Work with other local organisations such as credit unions, energy efficiency schemes and registered social landlords, to identify potential clients and help to meet a range of their financial inclusion needs
- Encourage money advisers to seek approval under the Debt Arrangement Scheme and adapt case management systems so that they meet the Scheme's requirements
- Implement a common case management system so that they can track the impact of their service on their clients' problems
- Work to agreed quality standards
- Publicise their services to encourage people who are beginning to experience difficulties to make an early approach for help



CASE STUDY 8: Money advice for vulnerable people

City of Edinburgh Advice Shop.

Stan, a 79 yr old single man, went to the City of Edinburgh Advice Shop, a local authority-run advice centre because he felt he had made a mess of his finances.

Stan took out a secure loan from his mortgage provider at the time his mortgage finished in 1995, to cover loans he had taken out to pay for his parents' funerals some years before. Although the new monthly payments were less, the new loan extended the repayment period to 10 years and increased his total debt.

As Stan was only in receipt of a weekly state pension and a small monthly work pension it left him with very little to live off each week. This resulted in him feeling depressed and a burden to everyone.

The Advice Shop contacted the Earl Haig Fund as Stan had served in two regiments during WW2. The Earl Haig Fund was happy to help and Stan received a grant which he used to clear his outstanding debts. The Advice Shop also helped Stan apply for pension credits which increased his income, and this coupled with having no outstanding debt repayments leaves Stan much better off.

“Stan has more disposable income each week and now feels like he is no longer alone.” *(Advice Shop Worker)*

CASE STUDY 9: Back-room support for money advisers

MATRICS

MATRICS (Money Advice Training, Resources, Information and Consultancy Services) is a partnership between Money Advice Scotland and Citizens Advice Scotland. MATRICS is supported by Executive funding of £500,000 pa and aims to increase the quality and quantity of money advice across Scotland by a range of activities including second tier advice for advisers, and a web-based resource 'Wiseradviser online.'

MATRICS has also developed and delivered the training and certification of money advisers for approval under the new Debt Arrangement Scheme, which forms part of the Debt Arrangement and Attachment (Scotland) Act 2002.

what can credit unions do?

Credit unions are social economy businesses with financial inclusion objectives. The Executive published *Unlocking the potential: an Action Plan for the credit union movement in Scotland in 2001*. This set objectives and targets to support credit union growth in Scotland. Targets include increasing the proportion of the population that are members of a credit union in Scotland from under 1% in 2001 to over 5% by 2005.

Credit unions are already contributing to financial inclusion. More can do so in the following ways:

- Provide affordable loans to meet the needs of people who have difficulty accessing mainstream borrowing facilities
- Offer savings schemes which pay a steady dividend and encourage savings as a way out of long term financial difficulty
- Provide additional services such as low cost insurance, funeral plans and help with money management
- Review credit union lending practices to offer more flexible loans. For example, credit unions might offer emergency loans not linked to the level of members' savings, or larger loans for debt consolidation or to buy white goods
- Work with other local organisations such as money advice services and registered social landlords, to give clients access to advice and packages of services, such as budgeting and bill paying accounts linked to money advice, or loan guarantee funds
- Extend common bonds to include financially excluded people or encompass areas of deprivation and isolated rural areas
- Consider mergers and/or partnership working with other credit unions to provide better geographical coverage throughout Scotland
- Work with employers to raise awareness of credit unions
- As large successful credit unions, provide support for smaller, developing unions such as business support or low cost business loans, to enable them to grow and work towards self-sufficiency
- Market the credit union actively, working with community groups, local schools, and adult literacies groups to raise awareness of credit union services
- Establish junior savings accounts and encourage children to develop early savings patterns. This may include local schoolchildren, youth groups and clubs, or children or younger relatives of credit union members
- Develop their members' knowledge of financial products and services generally and improve confidence in using these appropriately
- Encourage a more diverse range of volunteers to get involved in running credit unions, including young volunteers

CASE STUDY 10: Services tailor-made to combat financial exclusion

Pollok Budgeting and Bill paying account

Pollok Credit Union offers a Budget and Bill Paying Service to its members. This service allows customers to deposit an agreed weekly sum into their account and Pollok will pay their bills with it. It aims to help clients manage their debt and ensures payments are made to creditors on time every month. The service is free, and includes money advice and negotiating with creditors.

The Budget Service has been in operation for over a year and currently more than 30 people are using it.

"The budget service is a lifesaver. It has taken a great weight off of my mind." *(Mrs Fisher, Budget Service user.)*

CASE STUDY 11: A volunteer's experience

Kilmarnock Credit Union

Clair, a young lone parent with a two year old son attended a Kilmarnock Credit Union presentation at a local women's centre. She joined the union and saved regularly over the qualifying period to apply for her first loan. She was encouraged to volunteer and with help and support from other volunteers she overcame her initial shyness and quickly became an excellent teller/cashier.

The union recognised Clair's potential and invited her to join the credit committee. She proved to be a great asset to the committee in communicating with members and in all aspects of loan granting and the necessary administration.

Clair received training in office procedures and computing and developed skills to enable her to return to the workplace. Her confidence has grown significantly and she now attends college full time and has a part time job. Her most recent triumph was to pass her driving test.

"Kilmarnock Credit Union and all the other volunteers helped me to build my self esteem and confidence and helped me get to where I am today."

(Clair, Kilmarnock Credit Union)

**"Credit unions are social economy businesses
with financial inclusion objectives"**



who else should be involved?

There are a number of other potential partners in services that can promote financial inclusion. These can play an important role as trusted intermediaries, by signposting clients to more specialised services, but also through building aspects of financial inclusion into their everyday work.

The Executive, its agencies and the other key players in delivering financial inclusion can work with and through all of the following:

- Organisations that support particular client groups such as older people, minority ethnic communities, lone parents, disabled people, carers, families with young children, people with mental health problems or learning disabilities, those with drug or alcohol problems, offenders and ex-offenders, people affected by domestic abuse

These organisations may be able to provide some advice or support with financial inclusion themselves or in partnership with others. Alternatively they can help people identify that they have a problem or a need for information, and advise them on where to go to get expert help

- Organisations that provide services that may help solve problems of financial exclusion, such as post offices, registered social landlords, housing, welfare rights and legal advice services, homelessness units and hostels, family learning projects, enterprise networks and local economic development companies, development trusts, GPs, community health services, hospitals, health voluntary organisations such as those working with cancer, coronary heart disease and stroke patients

These organisations may provide advice or support with financial inclusion themselves or in partnership with others. They may also have a signposting role as above to others who can offer expert help

- Umbrella bodies with expertise and useful networks of contacts, such as credit union trade associations, employers' organisations and the trade union movement

These can help their members to identify what they can do to support financial inclusion and provide materials and knowledge to assist





“Organisations of many kinds are working to tackle financial inclusion”

CASE STUDY 12: Affordable credit

East Lancs Moneyline (ELM)

East Lancs Moneyline is a not-for-profit Community Reinvestment Trust which provides affordable credit to individuals and small businesses who are unable to access mainstream finance. It was set up with a mixture of local authority funding, bank and charitable donations.

ELM charges interest in keeping with mainstream rates with lower rates for subsequent loans. Borrowers are required to open a bank account and make repayments by weekly direct debit via an arrangement with a local branch of Barclays.

Since it started just over 2 years ago, ELM has made over 2,050 loans, totalling over £1.5m. Almost 20% have helped pay off loans to doorstep lenders; the rest have supported business start-ups, home improvements and other personal spending.

ELM also offers savings in house through an arrangement with HBoS, and makes referrals to free money advice via an arrangement with the local Citizens Advice Bureau.

“ELM is working to provide an integrated and practical source of advice, saving and credit for local people. If as a business, we can generate an income that covers our running costs, whilst at the same time saving money for our customers and retaining money in the local economy, we will have achieved our main goal”

(Ian Clough, Manager ELM)

resources

The Executive and Communities Scotland are supporting the action in this action plan as follows:

Existing resources:

- £5m pa for money advice from April 2005, channelled through local authorities
- £1m per annum to April 2006 to support money advice vulnerable groups projects
- £0.5m pa for the MATRICS organisation, providing training and support for the money advice field
- £1.1m for the credit union capacity fund until April 2006
- £50,000 pa to support the Scottish Centre for Financial Education
- Up to £1m pa to March 2006 for financial education initiatives outwith school settings
- £2m fund to develop post offices in deprived urban areas
- £18m Futurebuilders Scotland funding which will help build the capacity of social economy organisations, including those that work with people and communities vulnerable to financial exclusion
- Approximately £130m pa allocated to local authorities via GAE for community learning and adult literacies. Some spending on financial literacy can fall within this.

New resources:

- From April 2006, additional Executive funding of £5m pa will be available for supporting financial inclusion in areas with the greatest current problems.

In addition, there are other resources available in Scotland through:

- UK Government funding from the financial inclusion fund to increase sources of affordable credit
- Local authority services
- Community Regeneration Fund
- Communities Scotland “wider role” funding for registered social landlords
- Banks and other financial institutions
- Health services

co-ordinating delivery

Ministers are setting up a new Scottish financial inclusion forum in 2005 to help with delivery of this action plan. The forum will encourage innovative new approaches and identify what does and does not work well. It will include members from advice services, the financial services sector, local authorities, registered social landlords and others with an interest.

Other groups that already bring together those involved in financial inclusion, will continue, and will support delivery of specific aspects of the plan:

- Scottish Credit Union Partnership - an advisory group consisting of key players in the Scottish credit union movement
- MATRICS Advisory Group
- Financial Services Strategy Group - developing a vision and strategy for the financial services sector in Scotland

CASE STUDY 13: Local partnerships in practice

Llanelli and District Credit Union

Llanelli and District Credit Union is one of the fastest growing credit unions in Wales. The credit union is proactive in its local community and is keen to develop services which meet its members' needs such as its door to door collection service. Through funding from the Welsh Assembly Government the credit union has been able to operate a limited but successful credit union service within a sub-post office.

The project has benefited the post office by increasing footfall and use of post office services, and has extended community services through greater credit union presence. There has been a significant increase in credit union membership in the area where the pilot is operating.

An example of the benefits gained through this project is given by Mrs H who is a mother of three with a disabled husband. She said 'The facility to pay my credit union at the post office is a godsend as I was always finding it difficult to get into town. This way I am sure of a consistent savings pattern and I am able to feel more confident about our family finances.'

“Members are delighted with our sub-post office link-up and we are already enjoying the benefits of increased membership allowing us to provide more loans and strengthen our liquidity situation.”

Jeff Hopkins, SAVEeasy Credit Union Manager

monitoring and review

The Executive will monitor the use of resources and progress towards the Closing the Opportunity Gap financial inclusion target, through the Scottish Household Survey and other sources of information on:

- Increases in credit union membership and other measures of credit unions' sustainability
- Access to sources of affordable credit
- Information from case management systems on the use of money advice services
- Numbers of new money advisers in place by June 2005
- Take up of Executive-funded financial education initiatives
- The use of new Executive financial inclusion funding to improve availability of new services



Information will also be available from:

- Monitoring progress with the Treasury target to reduce the number of adults without a bank account significantly in 2 years
- DTI monitoring of overindebtedness through MORI surveys
- Proposed Office for National Statistics Wealth and Assets Survey, with fieldwork to start in 2006
- Inland Revenue's evaluation of the impact of the new Child Trust Funds
- Local debt profiling exercises

The Executive is keen that the impact of new financial inclusion activities is evaluated. Information about what works and what is less effective should be widely available. The Executive will therefore:

- Evaluate the current money advice projects for vulnerable groups and supporting the transition to employment
- Continue to evaluate financial education in schools
- Support schools in delivering Determined to Succeed, including through HMIE's self-evaluation resource Quality Indicators in Enterprise in Education
- Review progress with the credit union action plan during 2005
- Evaluate the impact of the new debt arrangement legislation
- Take part in GB- wide research on the impact of debt advice services
- Play a full part in developing the FSA's financial capability strategy. This includes establishing which of the pilot activities work well and should be replicated widely in Scotland
- Ensure the impact of financial inclusion work can be monitored across both urban and rural Scotland

The Executive will lead a review of progress with this action plan during 2007. This will involve the other key players, both nationally and locally. The approach to the review will be discussed in advance with the new financial inclusion forum.

Annex A

action on financial inclusion by the UK Government

Current action by the UK Government that is relevant to financial inclusion is listed here. There are implications for Scotland and action through this plan complements, and where necessary builds on, the following:

- **Promoting financial inclusion**, HM Treasury, December 2004, published alongside the Chancellor's Pre-Budget report. This announced a financial inclusion fund over the next three years, some of which will be available in Scotland. There will be a UK Financial Inclusion Taskforce to oversee work on UK targets. The UK Government has agreed with the banks to work towards the goal of halving the number of adults in households without a bank account, and to make significant progress against that target within two years. There will be a range of measures across Great Britain to boost the coverage capacity and sustainability of credit unions, CDFIs and other lenders to allow them to provide affordable loans to people who are financially excluded. In England and Wales, the financial inclusion fund will support an increase in the capacity of the face-to-face money advice sector, and will pilot models of money advice outreach aimed at those who do not normally present themselves to debt advisers
- **Reform of consumer credit legislation** as set out in Fair, Clear and Competitive: the Consumer Credit Market in the 21st Century – DTI, December 2003. The UK Government is improving transparency in the consumer credit market and will bring forward a Consumer Credit (Amendment) Bill to replace the current test for extortionate credit with one based on unfairness and help consumers to seek redress in other ways
- **DTI and DWP Tackling Overindebtedness – action plan** July 2004. This brings together action across Government Departments on financial capability, availability of affordable credit, introduction of a “stakeholder suite” of financial products to promote savings and asset accumulation, action to ensure that, wherever possible, debt problems and disputes are resolved without court proceedings and improvement in the standard of housing benefit and council tax benefit administration
- The UK Government will continue to invest in the **Social Fund** and will implement reforms by April 2006 to improve help from the Fund for people most likely to use high cost credit. The Spending Review in July 2004 announced abolition of the double debt rule in Budgeting Loans and lowering the repayment rate to a maximum of 12% of a customer's benefit
- **DWP Informed Choice** programme in Simplicity, security and choice: Informed choices for working and saving, February 2004. This aims to:
 - enable people to make the most of pension provision and encourage availability of the right pension products
 - raise people's awareness of their options and improve financial education, and
 - ensure that everyone has high-quality, accurate and timely information available to them



- Financial Services Authority: **Building financial capability in the UK** (May 2004). This is being pursued through 7 projects on schools, young adults, reaching people through the workplace, information for parents, supporting informed choices about borrowing, planning ahead for retirement and the role of “generic advice”
- Introduction by the Inland Revenue of the **Child Trust Fund** from April 2005. This is being supported initially with information and guidance for all eligible parents on investing their child’s fund
- Office of Fair Trading: **Consumer education: a strategy and framework** (November 2004). This sets a broader context for aspects of financial education
- **£450m package of financial support to maintain the rural Post Office network** until April 2006. Within this, a Flexible Fund of £25m is available to Post Office Ltd to pilot innovative solutions to rural post office provision, identifying solutions to apply more widely from 2006. Post Office Ltd has convened a Rural Strategy Advisory Group to advise on the use of the Fund and to help identify potential pilots. Scottish Executive officials are members of the Advisory Group and are working to ensure sufficient account is taken of the needs of rural areas in Scotland. DTI has recently announced a 2 year extension to support the rural post office network from April 2006 to April 2008



SCOTTISH EXECUTIVE

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