

Building financially resilient communities: The need for local action

Policy briefing



Introduction

This briefing is for policymakers in local and central government, third sector organisations and financial services providers. It follows an action research project, *Debt on Teesside*, undertaken by Durham University's Centre for Social Justice and Community Action and Thrive Teesside, concerning high-cost credit use in 24 low-income households. Links to the findings and recommendations, a toolkit, practice briefing on money mentoring, and a more detailed version of this briefing are provided at end of this document. The briefing also builds on the Centre for Responsible Credit's work on financial resilience.

The debt trap

The financial position of Britain's low to middle income households is extremely precarious. Over two million people are out of work, with many more in low-paid, insecure jobs. The cost of essentials has out-stripped wages and welfare reforms are putting the poorest under further pressure. People are turning towards high-cost credit lenders to make ends meet. Low income households have long been a rich source of profit for moneylenders and rent-to-own companies. The mass marketing and ready availability of payday loans, combined with the deterioration of many people's credit records, is drawing more into the debt trap. Products are designed to create a 'credit dependency'. Borrowers often have take out more credit simply to pay off previous borrowing. This causes unacceptably low living standards and/or default on housing, Council Tax and utility payments.

As the *Debt on Teesside* research revealed, households often reach crisis point before taking action to address their debts. Even so, advice services are struggling to cope with demand, and many have had their funding reduced.

Families are badly affected. Having children increases the likelihood, and severity, of debt problems, with long-term effects on health for both adults and children. Over one third of the *Debt on Teesside* participants reported mental health problems.

The need for national action

Local authorities, advice agencies and other community-based organisations should also share practice and press for national policy reform, including:

- 1. Comprehensive regulation of high-cost credit markets:** Cap the total cost of credit charged by all lenders (not just by payday lenders as currently proposed). Back the Local Government Association's call to give local authorities the power to stop the proliferation of high cost lenders on the High Street.
- 2. Expanding lower-cost alternatives:** Review the regulation of credit unions and community development finance institutions to enable these to create joint ventures and offer the range of financial services that people on low to middle incomes require. Provide access to cheap capital, which has so far been reserved for the banks.
- 3. Review the debt advice 'system':** Ensure sufficient and effective provision; guarantee debtors an adequate living standard, and ensure they benefit from the write-down of debt on creditor balance sheets. Enable people to save during the course of debt management plans.

What can be done locally?

A bold strategy is needed to increase the financial resilience of individuals, households and neighbourhoods. This should be developed with the engagement of local people and stakeholders and include:

- 1. Action to tackle 'credit dependency': to curtail high-cost lending, provide more affordable alternatives, and reduce the need for households to use credit**
 - Ban high cost credit advertising on public computer systems and in publicly owned space.
 - Develop a strategy to expand affordable credit. Move 'our' money to leverage bank support. Public sector organisations and major employers should demand a better deal for low income communities. Call banks to account for their provision, including by analysing lending data and seeking information and commitments within a 'local banking plan'. Move the money if they don't engage.
 - Ensure pension funds are not investing in high-cost lenders. Explore ways of investing locally.
 - Ease the pressure on households by offering flexibility with Council Tax and rent payments.
 - Support neighbourhoods to develop collective solutions to common problems (e.g. by establishing food co operatives and entering into collective bargaining with utility providers).
- 2. Action to tackle debt: by providing effective advice services, sensitive collection policies, and by building the capacity and resilience of individuals and communities**
 - Co-locate advice services to provide support on financial, education, childcare, and employment issues.
 - Adopt Corporate Debt Recovery policies and review rent arrears and repossession policies in the light of welfare reform.
 - Link local welfare schemes and other support together to address underlying issues.
 - Bring people together, including through community mentoring schemes (see Resources section).
- 3. Action on jobs and employment: to improve wages and conditions of employment, including challenging the practice of 'zero hours' contracts**
 - Commit to Living Wage Campaigns and promote these to employers.
 - Incorporate social clauses into public procurement exercises to ensure decent pay and prevent the use of 'zero hours' contracts.
- 4. Action on welfare reform: to mitigate its impacts and ensure fair treatment**
 - Encourage employers to provide workers with 'wage advances' and savings plans through ethical providers.
 - Obtain oversight of benefit decisions and develop multi-agency protocols to help people who have been sanctioned, or whose benefit has reduced following a reassessment.
 - Review repossession, transfer, and exchange policies and make use of local welfare funds to mitigate the effects of welfare reform and the 'bedroom tax'.

Our resources

- Debt on Teesside project, www.durham.ac.uk/beacon/socialjustice/researchprojects/debt_on_teesside/
- Building financially resilient communities: The need for local action, Discussion paper and policy briefing (2014)
- Money mentoring: Working with low income households experiencing problematic debt, Practice briefing (2014)
- Resources for money mentoring (exercises, assessment proformas) (2014)
- Community mentoring toolkit: Working with socially excluded households (2013)
- Debt on Teesside: Pathways to financial inclusion, Research briefing (2013)
- Debt on Teesside: Pathways to financial inclusion, Final report (2013)
- Loadadebt, 4 minute campaign film on predatory lending (2013)

Centre for Responsible Credit, www.responsible-credit.org.uk

- The impact of advice services on people in poverty: evidence review (forthcoming, June 2014)
- Local Welfare Provision, low-income households and third sector financial services provision (2013)
- Improving Practice in the Rent-to-Own Market (2012)
- Can consumer credit be affordable to households on low-incomes? (2011)

Thrive Teesside, www.thrive-teesside.org.uk

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