

# Reshaping financial support

Executive summary



**University of Brighton**

A report for the Local Government Association  
from the Centre for Responsible Credit  
and University of Brighton

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# Executive summary

The financial well-being and capability of low-income households is currently being impacted by a number of factors. Depressed real wage growth; Government's programme of welfare reforms; high housing costs and longer-term changes in the labour market (including more flexible working patterns and low paid self-employment): all appear to be contributing to the risk of financial exclusion, as evidenced by increased rent arrears, increased use of food banks and a growth in over-indebtedness.

Research commissioned by the Money Advice Service indicates that over eight million people (around 15 percent of the total UK population) are currently over-indebted; and the debt advice charity StepChange estimates that nearly four million people on lower incomes resorted to using high cost credit to meet day to day living costs last year.

Local authorities are in the front-line of responding to these challenges.

- Councils are at the heart of their local areas and interact with their residents' lives on a daily basis. They have a unique leadership role in promoting the local economy and securing inclusive growth and are committed to achieving greater social mobility, fairness and community cohesion<sup>1</sup>. As place leaders, they have a unique role in ensuring provision is tailored to meet the needs of local communities, and that residents have access to the opportunities they deserve and the public services they need.

- Councils have direct financial relationships with their residents: collecting council tax and administering benefit and other, discretionary, payments. In some cases they are also landlords. This provides them with an opportunity to identify households in financial difficulty and provide them with timely support. A rise in over-indebtedness is likely to compound the vulnerabilities of many low-income households and create further pressure on statutory services. Unless local support is effective there is also a risk that Council Tax and rent arrears may increase.

However, the resources available to councils to help residents in financial difficulties are severely constrained. Local government faces a £5.8 billion funding gap in the next two years<sup>2</sup>. This has inevitably led to cuts to services and, in many areas, there has been a scaling back of the types of direct financial support which can help households through a financial crisis or support them to obtain essential items that they could not otherwise afford<sup>3</sup>.

Some councils, under pressure to maintain their revenues, have also been criticised for adopting debt recovery practices which may impose additional costs on, and create stress and anxiety for, households in financial difficulty.

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<sup>1</sup> Reflecting this, many have voluntarily take up the socio-economic duty and established 'fairness commissions' to address poverty and inequality in their areas.

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<sup>2</sup> See [www.local.gov.uk/local-government-finance-settlement-2018](http://www.local.gov.uk/local-government-finance-settlement-2018)

<sup>3</sup> For example, in some areas there have been severe cuts to the level of assistance being provided to vulnerable groups through Local Welfare schemes. See: Gibbons, D. (2017). 'The decline of crisis and community care support in England: why a new approach is needed'. Centre for Responsible Credit.

## About the study

To inform how local authorities can respond to these challenges, the Local Government Association commissioned the Centre for Responsible Credit and University of Brighton to study ten councils<sup>4</sup> that have been changing their support for people in financial difficulty in recent years.

The study focused on identifying good practice and involved a combination of surveys and telephone interviews with council officers operating in a wide range of relevant strategic and operational roles. It has also sought to look at how this existing good practice can be built upon to improve outcomes moving forwards.

## Key findings

**Councils have been working across service responsibilities and joining up their provision to better meet the needs of lower income households**

- Data is being drawn together from across services to better identify and target support for priority households. These have primarily been people affected by welfare reforms. However, councils with additional Government funding to run Homelessness Prevention Trailblazers through to the end of 2018/19 are also using data to identify people at risk of homelessness, and the interaction with housing-related services is often particularly important.
- Councils have been experimenting with new engagement strategies to get support to those who need it most. Offering direct financial help to 'buy time' for councils to work with people on longer term, underlying problems, appears to be effective. The longer-term support provided

includes welfare rights advice, budgeting and debt advice as well as housing and employment support to build longer term financial resilience.

Although more robust evaluation is required, these pro-active, preventative, approaches may be more cost effective than dealing with people at crisis point and could reduce the considerable costs arising from high cost statutory interventions.

There are risks that these approaches will be negatively impacted by the roll out of Universal Credit (UC). Some design features of UC, such as the waiting period and monthly payment, seem to be presenting challenges for some households, and it remains to be seen whether these will settle over time<sup>5</sup>. Councils could lose access to information which currently allows them to pro-actively identify households in need of help at an early stage. In addition, there is some evidence that Universal Credit negatively impacts on the take-up of Council Tax Support, now that a separate claim has to be made. With the recent announcement that Citizens Advice is to deliver Universal Support for UC claimants, councils will need to ensure that they have effective partnership arrangements in place with local Bureaux, as well as with other, specialist, voluntary sector providers.

Discretionary funding is a critical element in the support that councils currently offer to people in financial difficulty. This can be used to create a 'breathing space' whilst longer-term problems are addressed. Some councils are seeking to bring their discretionary funds together into a single pot: allowing for eligibility criteria to be broadened; removing the need for multiple applications and reducing administrative costs. However, the future of these funds is in some doubt. Government removed separately identified funding for Local Welfare Schemes in 2015, meaning that these are already in serious decline. There is no commitment

<sup>4</sup> These are: Birmingham City Council; Bristol City Council; East Riding of Yorkshire Council; London Borough of Hackney; Hastings Borough Council; Leeds City Council; Newcastle City Council; Nuneaton and Bedworth Borough Council; London Borough of Tower Hamlets; and Wiltshire Council.

<sup>5</sup> Safe as Houses 2: A follow-on report into the impact of Universal Credit on Southwark Council's housing tenants rent payment behavior – Smith Institute, November 2018

from Government to continue its allocation of Discretionary Housing Payments beyond 2020/21.

### Councils are improving customer journeys and resolving peoples' problems earlier

Some councils are re-shaping wider advice provision in their areas, including that provided by the voluntary and community sector:

- Reviews involve improved commissioning and elements of 'co-design' with advice providers and service users, which are often focused on reducing preventable demand through earlier intervention and ensuring that there is greater co-ordination between providers. Early results indicate that greater integration of debt and benefits advice, and the co-location of services has the potential to improve outcomes.
- Opportunities also exist for councils to engage with the Single Financial Guidance Body's Debt Commissioning Strategy. This will target many of the same priority groups for support as councils and seeks to build the longer-term financial resilience of people. Councils who are already providing and/or funding debt advice and money guidance services could provide useful trial settings for co-commissioning.

### Councils have been reviewing their approach to debt collection

- Many have been reviewing, and in some cases, creating, 'corporate debt recovery policies'. These take a holistic view of residents' debts to the council and seek to reduce the need for enforcement action and establish sustainable repayments. These have been informed by the LGA and Citizens Advice protocol for council tax collection which was agreed in 2017<sup>6</sup>, and by LGA input into the Single Financial Guidance Body's operational toolkit 'Working Collaboratively with Debt Advice Agencies'

<sup>6</sup> A copy of the protocol is available at: [www.citizensadvice.org.uk/Global/CitizensAdvice/campaigns/Council%20Tax/Citizens%20Advice%20Council%20Tax%20Protocol%202017.pdf](http://www.citizensadvice.org.uk/Global/CitizensAdvice/campaigns/Council%20Tax/Citizens%20Advice%20Council%20Tax%20Protocol%202017.pdf)

- Some councils have established cross-council panels and 'complex case review' processes to prevent evictions and are working closely with advice agencies to reduce the use of bailiffs. The London Borough of Hackney has established a pilot project with an external supplier to contact residents who have received a summons for council tax liability order proceedings with the aim of agreeing payment plans, or referring to debt advice, and prevent the need for bailiffs to be engaged
- Some councils are taking steps to ensure that action to recover debt does not add to the burden of people in financial difficulties. In Newcastle, a decision has been taken to waive the £60 liability order summons cost for people who are in receipt of Council Tax Support provided they manage to clear their liability in full over the course of the year.

Central government could help local authorities to do more, for example by providing local authorities with access to HMRC employment data, so that Attachment to Earnings could be used as a more effective alternative to bailiff action for the recovery of council tax.

### Councils are leading financial inclusion partnerships to provide long term strategic direction to provision, and to support the development of financial services and products for low to middle income households

- In some areas these partnerships are driving forwards initiatives to improve the long-term financial resilience of households. In Leeds, the city's credit union has almost trebled its membership from 11,000 in 2005 to 31,456 as at March 2018 and is taking forwards the launch of a web-based payday loan product charging credit union rates
- Housing Leeds also provides specific funding to Leeds Credit Union to help with applications for discretionary payments and

grants and negotiate affordable payment arrangements with priority creditors (including the council) as well as provide access to its bill payment service and its savings and loans products

- Birmingham City Council hosts the Illegal Money Lending Team (IMLT) for England. This provides support to councils to tackle loan sharks by training front-line staff and by promoting safer borrowing options – such as from credit unions and community development finance institutions<sup>7</sup>. A joint initiative will use proceeds of crime money, confiscated from convicted loan sharks, to sponsor new credit union accounts.

Some councils in the study reported that their financial inclusion partnerships were no longer operating effectively, in many cases due to a lack of staff and financial resources. There was also a shortage of dedicated funding to support service development and improvement. Financial inclusion activity was often piecemeal and small-scale in comparison with the challenges that areas faced.

However, opportunities are becoming available for local authorities to boost the development of not-for-profit financial services providers in their areas. In August, the Government announced<sup>8</sup> that it would work with Big Lottery Fund to use £55 million from dormant bank accounts to fund a new, independent organisation which will work with partners across the private and social sectors to tackle financial exclusion. The End High Cost Credit Alliance, formed earlier this year by the actor and activist, Michael Sheen, also intends to launch an initiative called 'Fair Credit Place' later this year, which could see considerable investment flow into the sector.

<sup>7</sup> Activities to promote affordable credit in Birmingham have included the creation of a 'Loan Shop' in the city centre which is staffed for two days per week by the CDFI, Moneyline. The Financial Inclusion Partnership has also worked with CitySave credit union to provide a 'tenant account' for Universal Credit claimants. This seeks to safeguard rent payments by ring-fencing an amount for these and paying this to the landlord. For further details see [www.citysave.org.uk/citysave-tenant-account/](http://www.citysave.org.uk/citysave-tenant-account/)

<sup>8</sup> See p. 16, 'Civil Society Strategy: building a future that works for everyone', Cabinet Office, August 2018.

## Conclusions and next steps

The councils in this study have been working hard to improve their support for people in financial difficulty despite severe funding constraints and considerable change and uncertainty about the role that local government is expected to play in the welfare system once the roll-out of Universal Credit is complete. This report provides evidence that a clearly articulated approach to financial support is an important aspect of councils' wider work to identify and support households across a range of disadvantage, and is also more effective when integrated with other key preventative and protective services such as housing and social care.

There would be real benefits to councils and communities from disseminating the good practice that already exists in the sector building on this further to:

- pro-actively identify people in financial difficulty and provide them with a more fully integrated offer of support
- trial the co-commissioning of advice provision with the Single Financial Guidance Body
- test out and learn from new innovations in advice provision and debt collection
- take advantage of new opportunities to boost investment in not-for-profit lenders and develop closer links between local authority support and these services.

The LGA is keen to undertake further work with councils to test and strengthen local provision and evaluate the impact of different approaches on financial health outcomes for lower income households; collection of revenues; and levels of demand for high cost, statutory, interventions.

Drawing on the conclusions from this study, the LGA is exploring options for delivering some financial support pathfinders in 2019/20.

As part of the project, the LGA and other partners will consider how the pathfinders could be used to generate a robust evidence base to:

- aid future decision-making by councils concerning the costs and benefits of putting preventative approaches in place;
- inform the ongoing development of good practice in council debt collection
- contribute to ongoing discussions with Government concerning the respective roles of national and local government (and other key stakeholders including the voluntary sector) in supporting low income households, with consideration given to the continued impacts of welfare reform and Universal Credit, housing and employment policy, local government funding and the wider social and economic context.



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