

A Financial Inclusion Strategy for EastendHomes 2012 - 2014



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1. Introduction

- 1.1 Financial inclusion is about ensuring everyone has the opportunity to access the financial service products needed to participate fully in modern-day society. Financial exclusion affects some of the most vulnerable members of society.¹
- 1.2 As tightening of Housing Benefit criteria thresholds and allowances takes effect, Registered Providers of Social Housing (RPs) such as EastendHomes benefit by having strategies to offer financial wellbeing support to their residents, including access to advice, training and employment. By participating in activities designed to address the impact of financial exclusion, EastendHomes can ensure that its residents have the skills, capacities and resources to meet their primary tenant responsibilities of paying rent due and maintaining a peaceable safe community. A financial inclusion strategy is necessary for ethical and business reasons and forms an integral part of our overall business strategy. There are clear links to other agendas around community cohesion, anti-poverty and sustainability.
- 1.3 EastendHomes has benefited from working with other Registered Providers in developing an understanding of the nature of financial exclusion, the services available and the approaches adopted to develop a financial inclusion strategy.
- 1.4 EastendHomes, through the implementation of this strategy, seeks to provide help and support to residents who find themselves in financial difficulty. There is nothing new about financial exclusion and its impact on the poorest members of society.

2. What is Financial Inclusion?

- 2.1 The government HM Treasury in March 2007² defined financial inclusion as ensuring that everyone can
- Manage their money on a day to day basis
 - Plan for the future and cope with financial pressures
 - Deal effectively with financial distress
- 2.2 Financial inclusion considers an individual's ability to access appropriate financial products and services. Individuals can be excluded from these services for various reasons, including:
- The cost of the service
 - Ignorance of how to access the service
 - A belief that they will be refused assistance

¹ HM Treasury: Financial inclusion: an action plan for 2008-11.

² Financial Inclusion: the way forward HM Treasury March 2007.

2.3 Research has shown that certain groups of individuals are more at risk of financial exclusion. These include households on low incomes; over 60s; young adults between 18 and 24; people with disabilities or additional learning needs; the homeless; single parents; refugees and asylum seekers. In addition, certain changes in circumstances can lead to individuals becoming more exposed to risk. Such changes include illness or death within the family; divorce; loss of employment; moving from benefit into work; moving out of the parental home and changes in benefit eligibility.

2.4 Financial exclusion can mean that individuals have limited or no access to a range of products or services. These can include³:

- **Bank Accounts:** vulnerable individuals can find it difficult to obtain bank accounts. Even when bank accounts are established, individuals have to understand how to use their account to avoid unnecessary bank charges.
- **Personal Credit:** vulnerable individuals can find it difficult to obtain personal credit. They may be blacklisted because of the area that they live in or a poor payment history, and the forms of personal credit available to them might only be expensive or unregulated forms of credit.
- **Insurance:** vulnerable individuals can have difficulties accessing insurance products, particularly home contents insurance, leaving them more vulnerable in times of need.
- **Savings:** many individuals on lower or fixed incomes can find it difficult to get savings started and experience difficulties in accessing savings accounts. This will mean that they will not have resources in reserve to draw on to deal with routine emergencies, such as breakdowns of household equipment.
- **Advice:** individuals can find it difficult to get simple and independent explanations of financial services and easy to access to money management information.
- **Education:** many individuals lack the knowledge and skill to manage their money and lack understanding of how to access financial institutions.
- **Identification requirements:** individuals can be refused a bank or building society account because they cannot provide identity documents to show who they are and where they live. Many banks and building societies only accept a driving licence or passport which some low income families do not have.

2.5 The inability to access appropriate financial services can exacerbate an individual's financial difficulties because it can lead to their exclusion from cheaper services such as gas and electricity paid by direct debit and an over reliance on expensive financial products and services where APR for credit can range from 100-400 per cent from door step lenders.

2.6 Pay Day Loans can offer small instant access to loan funds at extortionate interest rates which may cripple the applicant into long-term indebtedness.

³ Renfrewshire Financial Inclusion Strategy

The Annual Percentage Rate (APR) relating to these loans can run into thousands of percent.

3. Why is Financial Inclusion Important to Social Landlords?

3.1 The Financial Inclusion Taskforce set up by the government to oversee progress in addressing this issue has identified RPs as having a significant role to play. This is because they are:

- Responsible for a relatively high percentage of those who are financially excluded. Seventy percent of the 2.8 million people financially excluded in the UK are tenants of RPs. Other relevant indicators include:
 - 24% of tenants have no bank account
 - 9% of tenants admit to having arrears
 - 75% of tenants have no home contents insurance⁴
- Often RPs are one of the few trusted intermediaries remaining in an area.
 - In some areas, estate-based housing centres remain one of the few local services providing face-to-face contact. This engenders a level of trust with many residents.
 - Reputable banking services and agencies that provide lower cost loans recognise RPs as responsible organisations.
- Social landlords are able to access hard to reach, vulnerable groups.
 - With an increasing emphasis on resident profiling, resources can be targeted to identified groups and individuals.
- Social landlords are committed to building and sustaining healthy neighbourhoods and communities.
- The impact of welfare reform, particularly direct benefit payment to tenants, means that social landlords have a vested interest in supporting their residents' financial wellbeing to protect their rental stream and business plan.

3.2 There are also good business reasons why RSLs should develop strategies to promote financial inclusion and support stable communities. Financially included households can better:

- Manage rent payments
- Sustain their tenancies and avoid homelessness

Costs associated with rent arrears, rent collection, court action, evictions, empty and abandoned properties can be minimised or reduced where a successful strategy is in place. There is therefore a direct link to an improvement in business efficiency, levels of customer satisfaction and general well being.

⁴ Data from the national forum for financial inclusion – transact. 2007

4. A Financial Inclusion Strategy relevant to EastendHomes

4.1 Various statistical data demonstrates the financial vulnerability of some of EastendHomes residents and a reliance on benefit that would lend greater prominence to the impact of the current welfare reforms.

4.2 The CORE return data which is compiled for each new tenancy shows that of the 117 new tenancies started in 2009/10:

- Employment status: 22% working full time, 11% working part time, 43% economically inactive (includes long-term sick, disabled and retired), 22% unemployed
- Net weekly income: Ave. income of £228.54.
- All income from state benefits / pensions: 53%, partly from state benefits / pensions: 17%

4.3 The Status survey undertaken by the NHF in May / June 2010 obtained information about existing tenants:

- Employment status: 16% employed full time, 9% working part time, 4% self-employed, 13% permanently sick / disabled
- Weekly income: 39% earn between £100-£199 per week, and a further 27% have an income of less than £100 p/w. Only 17% have an income of more than £300 p/w.
- 69% of tenants were in receipt of Housing Benefit.

4.4 An analysis of EastendHomes HB receipts show that in all, 75.26% of EEH tenants receive HB, which constitutes nearly 60% of EeH's total rental income)

4.5 *Rent arrears trends and levels of eviction*

In general EastendHomes rent arrears management performance has been consistently within targets set and has maintained strong performance despite the impact of the wider economic climate. Current tenant arrears levels stood at 2.81% at year end 2011/12, in comparison to 2.96% at year end 2010/11, 3.55% at year end 2009/10 and 2.97% at year end 2008/09.

However there has been a recent trend towards increased incidence of eviction for rent arrears, which saw 8 completion evictions in 2011/12, compared to 3 in each of 2010/11 and 2009/10, and 4 in 2008/09. Measures to minimise the number of cases in which possession action are necessary have been incorporated into this strategy, including the invitation of a vulnerability champion to rents panels, prior to possession action being pursued.

4.6 EastendHomes introduced a Financial Inclusion Strategy in 2007 which pursued partnerships and mechanisms to promote the financial welfare of EastendHomes residents. However, the direction of subsequent and ongoing

welfare reform since that time means that the financial impacts of inadequate support for EastendHomes residents now have an increased potential impact, both on individuals' ability to sustain a tenancy and for EastendHomes business planning.

- 4.7 There are a range of services already established in the Borough and nationally to assist in redressing financial exclusion. However, an analysis of residents taking up support offered from only one site in EastendHomes demonstrated that the service was only being accessed by residents situated within the geographical cluster around the advice service.
- 4.8 EastendHomes consequently has entered into an agreement with a locally based advice charity, the Bromley by Bow Centre to offer bespoke advice sessions on a rotational weekly basis from each of EastendHomes Housing Centres. The advice service will draw in resources from borough or national agencies as appropriate and no specific arrangement has been made directly between EastendHomes and any of these agencies although residents can alternatively access them based on eligibility criteria for free or paid advice. The performance reports for 2011/12 are attached as Appendices 3a and 3b.
- 4.9 In addition to sessional advice, the Bromley by Bow Centre will provide supplementary workshops on budgeting and financial advice.
- 4.10 The remit of the locally based advice service is as follows:
- Providing financial health checks targeting new tenants and vulnerable households
 - Debt advice and repayment negotiations
 - Budgeting and saving advice including credit union promotion
 - Assistance with claiming benefits and grants
 - Advice on employment and training
- 4.11 EastendHomes and the Bromley by Bow Centre already work with a range of partner agencies locally. Both parties will continue to develop their working practices to promote the service of the Credit Union.
- **London Community Credit Union** is located in three offices across the borough (Bethnal Green Rd, Roman Road and Vesey St Poplar) is a community owned and controlled financial cooperative. LCCU services include:
 - **Savings Accounts** including Saver Plus Accounts, Instant Access Accounts which are designed to meet the needs of the community
 - **Loans** which enjoy no hidden charges or penalties for early repayment, fixed interest rates, protection insurance in the event of death, negotiable repayment terms.
 - **Debt advice**

5. EastendHomes Financial Inclusion Strategy

5.1 A Strategy ensures there is joined up thinking across the organisation and includes functions such as arrears management, housing management and lettings.

5.2 Effective Rent Arrears Management

The CIH recommends that RPs need to ensure that their policies and procedures:

- Focus on arrears prevention and intervene as early as possible where problems arise
- Ensure effective use is made of all available options with eviction being the last resort
- Offer a range of low cost rent payment methods which do not incur a penalty
- Incentivise direct debit payments
- Comply with the statutory requirements including the pre action protocol introduced in 2006.

5.3 EastendHomes will deliver effective rent arrears management which incorporates financial inclusion support by:

- Offering independent local financial advice with the Bromley by Bow Centre at the earliest stage in our rent arrears management procedure.
- Offering advice at key stages of the rent arrears management process including service of Notices
- Following the court protocol regarding contact
- Offering a wide range of payment methods and frequencies
- Incentivising direct debit payments
- Supporting attendance by a Bromley by Bow Centre worker at our rents panel to act as a vulnerability champion to challenge management progression decisions.
- Incentivising clear rent accounts with a quarterly prize draw.

5.4 Sustaining Tenancies and Avoiding Homelessness

Registered Providers are expected to ensure that, during the first few months of a new tenancy, tenants are adequately supported where they are identified as having poor literacy or money management skills and the CIH recommend that RPs provide:

- Advice in relation to the rent payable and average running costs for property in advance of a letting where possible
- Provide a money advice referral form into the sign up information pack
- Support young people to prepare for first tenancies through schools and youth clubs
- Provide access to low cost furniture and white goods

- Provide information about fuel and energy efficiency

5.5 EastendHomes will deliver effective tenancy sustainment support by

- Advertising rents, council tax and other known charge information to allow applicants to make informed bids
- Identifying support needs pre-tenancy wherever possible
- Assistance at sign –up with help completing housing benefit forms
- Referral to HomeStore at sign up where appropriate
- Provision of energy efficiency information to the new tenant at the time of sign-up
- Visiting all new tenants shortly after they move in to check that they have settled in and sorted out their benefits and rent payments
- Referring residents to the Bromley by Bow Centre for financial, employment and energy efficiency advice
- Identifying tenants who may be penalised by the bedroom tax to offer early assistance if rehousing is required.
- Referring residents to Floating generic advice where appropriate
- Consider vulnerability and referral at key stages of housing management activity
- Assisting vulnerable residents to access alternative accommodation where they require it
- Incentivising take up of home contents insurance for new tenants
- Incentivising credit union accounts

6. Cost of Implementing the recommended Financial Inclusion Strategy

6.1 This strategy will have a budgetary impact specifically in relation to:

- £15,000 allocated as funding for the social welfare advice and financial capability service provided by the Bromley by Bow Centre at each of the local housing centres
- £13,000 allocated as funding for the employment advice provided by the Bromley by Bow Centre based in The Centre, Merchant Street, Mile End

Additionally the incentive arrangements currently in place is budgeted at £6,000 for 2012/13.

It is essential that EastendHomes is committed to the financial inclusion strategy and builds the costs into the budget-planning process going forward.

Whilst there are ethical reason why EastendHomes should implement this strategy there are also business reasons which will offset some or all of the cost set out above. The strategy includes for the monitoring of the business case for financial inclusion and this is reviewed annually with the Bromley by Bow Centre.

7. The Financial Impact of Welfare Reform

7.1 The government is introducing a range of welfare reforms which commenced in 2011 going through to 2017 and the potential financial implications to EastendHomes have been quantified.

These broadly fall into four categories of change:

7.2 *Non Dependant Deduction Increases*

Between 2001 and 2011 the deduction from Housing Benefit entitlements made for non-dependants (residents of the property who are of working age) was frozen. The coalition government decided to increase the deductions to a level such as that they had been uprated in line with earnings in each of these years, and to phase these increases over three years. Therefore some fairly sharp rises in the deductions from Housing Benefit entitlement have been created, particularly in households with more than one non-dependant in residence.

EastendHomes carried out an impact assessment exercise in conjunction with a consultant from the CIH. The predicted impacts are as below:

Year 1 (2011-12) the reduction in HB payable is estimated to be **£68,129**

Year 2 (2012-13) the reduction in HB payable is estimated to be **£155,562**

Year 3 (2013-14) the reduction in HB payable is estimated to be **£252,449**

7.3 *Bedroom Tax Increase for Non-Pensionable Under-Occupiers*

From 1 April 2013 it is intended to introduce size criteria for new and existing Housing Benefit claimants living in the social rented sector. The change will only apply to working-age Housing Benefit claimants. Under this new size criteria, any household deemed to be 'under-occupying' by one bedroom stands to lose 15% of their Housing Benefit and those 'underoccupying' by two or more bedrooms will lose 23%.

Based on known under-occupation within EastendHomes stock, the loss in Housing Benefit is estimated at **£52,629** (in 2013-14), while using extrapolated data regarding London average levels of underoccupancy, EastendHomes tenants would lose an estimated **£205,835** in the same financial year.

7.4 *Housing Benefits Cap*

From April 2013, the total amount of all out of work benefits will be capped at £500 per week for a couple and lone parents (£350 for single claimants). Any excess will be shaved off housing benefit in the first instance. Out-of-work benefits included within the overall cap include:

- child benefit
- child tax credits
- jobseeker's allowance, income support / employment and support allowance

- council tax benefit
- industrial injuries benefits and carers allowance
- housing benefit.

Using national averages to form an estimate, with 2,108 tenancies, an average tenancy profile would mean **15** tenants of EastendHomes can expect to lose £4,836 benefit each a year; **£72,540** in total annually. In practice, the inner London location of EastendHomes' properties and the large family homes built as part of the regeneration programme mean the impact could potentially be greater.

7.5 *Direct Payments*

From October 2013 the housing element of Universal Credit is to be paid direct to tenants, rather than directly to the housing organisation. The policy reasons for this proposal include:

- Universal Credit rolls up all existing streams of out-of-work support into a single payment which is to be viewed as a surrogate wage; and
- Tenants that are out of work will have to pay their rent direct to their landlords in the same way as working tenants and it is believed that this will help tenants become more work ready and better able to manage the transition to work.

This means that EastendHomes will potentially have to collect an extra **£5,708,683** or **53%** of the rent roll direct from tenants who currently have their rent or part of it paid direct by the Housing Benefit Department.

8. **Response to Welfare Reform Proposals**

8.1 EastendHomes has developed a specific action plan to mitigate the potential impacts of the impending Welfare Reforms. These are included at Appendix Two.

9. **Summary**

9.1 As described the EastendHomes Financial Inclusion Strategy consists of three key aspects of management activity

- Managing rent accounts effectively including proactive partnership working to deliver individualised support for vulnerable households
- Maintaining tenancies and avoiding Homelessness through effective timely intervention and support
- Targetting support to those impacted by welfare reform