ENDING FUEL POVERTY AND FINANCIAL EXCLUSION

Community Reinvestment Partnership for Factor Four Bill Payment, Money and Energy Advice Services

Social Enterprise Business Plan

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New Economics Foundation and National Energy Action

March 2002

Acknowledgements

This project has its origins in an approach made in late 1999, by Jenny Saunders of National Energy Action (NEA), to New Economics Foundation (NEF), to explore ways of linking NEF's expertise in the development of community finance institutions to an initiative to tackle fuel poverty and financial exclusion. So thanks are due to Jenny for instigating this project. We are also grateful to Dave Barnes at Ofgem for securing funding for the initial exploratory study, *Ending Fuel Poverty – A Factor Four Approach,* which was completed in July 2000.

However, development of this Business Plan and the companion market feasibility study by our research colleagues, Sharon Collard and Elaine Kempson at the Personal Finance Research Centre (PFRC) at the University of Bristol, was facilitated by the work of earlier pioneers who sought to solve the conundrum of how to deliver low-cost and affordable payment systems to low- income households in ways that would not rely indefinitely on large and continuous subsidy.

Good ideas appear cyclically, as do the bad ideas of course. Care is therefore needed to ensure the optimum decisions are taken and recommendations made; hence the importance of the prior investigative work involved in this project.

The origin, of what is described in this report as a Factor Four service to tackle fuel poverty, was conceived in 1989 by Peter Alcock of Community Energy Research in Birmingham. This featured a community economic development experiment, called NUTSHELL, with the inimitable acronym of 'Neighbourhood Use of Time and Space for Homes, Environment Livelihood and Leisure' thought up by Dr. Tony Gibson. For Peter, Tony and their NUTSHELL co-developers at Birmingham Settlement and the Neighbourhood Initiatives Foundation, local co-operation by active citizens in neighbourhoods with the right social investment and technical help from big corporate bodies like housing associations, utilities and banks, could develop viable social businesses to solve a wide range of apparently insoluble social problems.

NUTSHELL projects promoted this local mutuality and seed corn investment strategy in 1989-1990 and, a decade later in April 2000, the 18 Policy Action Teams of the Government's Social Exclusion Unit came to a number of strikingly similar conclusions in the National Strategy for Neighbourhood Renewal (SEU, 2000). A practical output of NUTSHELL had been the Fuelsavers project of Birmingham Settlement which developed an integrated delivery system for money and energy advice during the 1990s. Delivery of integrated advice services was proven to be feasible and this provided a foundation on which could be built a full Factor Four. The pioneering work of Birmingham Settlement should therefore also be recognized.

The production of this report, and the companion report by PFRC, would not have been possible with out the generous support of Innogy who recognised the potential value of this project and that it merited sufficient resources to allow proper investigation. In particular thanks are due to Yvonne Constance and Laurence Poel at Innogy and to Elaine Midwinter and Phil Kear at Npower. We are also grateful to Ofgem for funding the preliminary study in 2000 under their Social Action Plan programme and for providing additional funding to service the steering group side of the work.

As a result the project has benefited from the guidance of an expert Advisory Group including Virginia Graham and Dave Barnes of Ofgem; Rob Potter and Sharon Young from the DTI; Andrew Holder from HM Treasury; Caspar Henderson of the Consumers' Association; Peter Kelly at Barclays Bank; Alan Jarvis of the Money Advice Trust; Paul Jones of Liverpool John Moore's University; and Lesley Davies of Energywatch.

In conducting the Irish fieldwork, we would like particularly to thank Liam Edwards at the Money Advice and Budgeting Service (MABS) and Stuart Stamp at Comhairle for helping arrange interviews, and to John Lawless and Noel Brennan of MABS in Dungarvan for assisting to make our stay in the South of Ireland a memorable one. In the USA, we are indebted to Cliff Rosenthal at the National Federation of Community Development Credit Unions (NFCDCU) for his superb hospitality and for tremendous assistance in the form of introductions to the most experienced practitioners. We would also like to thank Cathie Mahon, the NFCDCU's former head of policy, for her encouragement of our efforts.

In New York, both Pablo DeFillipi and Peter Bray of NYC*f*NAC were particularly helpful in arranging a special seminar with New York CDCU members to discuss the British research project, and in spending many hours trying to guide us towards creative solutions. In up-state New York we are indebted to Bill Myers of the Alternatives Federal Credit Union for his encyclopaedic knowledge of community finance solutions and how credit unions might tackle in, a commercial manner, any number of seemingly impossible problems. The record of credit union product development by Bill and his colleagues speaks for itself and is supported by the ingenuity of other NFCDCU members in tackling financial exclusion right across the USA.

The devil is invariably in the detail, and here we are particularly indebted to the practical experience of community finance practitioners in Birmingham, Liverpool and Portsmouth. Without their active involvement in recruiting local people to Focus Groups and in working over three group-session days at different intervals between August and November, the Business Plan could not have been developed. Consequently the plan has been a mutual effort. In particular we would like to thank Mike Knight and Colin Strickland of the Riverside Credit Union in South Liverpool; Bob Paterson and Godfrey Doyle of the Porstmouth Area Regeneration Trust; Jackie Parker, Joan Sutherland, Yvonne Spence, Dot Collins and Tracey Brown of the Ladywood Credit Union and Ladywood Project in Birmingham; and Nadine Forde of Birmingham Credit Union Development Agency.

We would also like to thank Sophie Brookes of Birmingham Settlement National Debtline and Peter Lowen of the Legal Services Commission for their input on money and debt advice aspects of Factor Four service development.

We would like to thank our fieldwork research colleagues whose efforts to gather data, conduct postal surveys, telephone interviews and face-to-face interviews have brought together a wealth of information. Here tributes go out to Jim Fawcett, Ron Campbell and Malcolm Dove of NEA for survey and interview work with the energy and water utilities, home improvement agencies and energy efficiency advisory organisations. Additional thanks go out to Jim Dearlove and Mike Perry at Birmingham Credit Union Development Agency as well as Bob Paterson of Community Finance Solutions at the University of Salford for help with fieldwork interviews, the Irish work and for business planning inputs. We are also grateful for the specialist credit union IT expertise of Malcolm Thomas and the specialist legal guidance of Malcolm Lynch of Wrigleys Solicitors in Leeds.

The foundation of the Business Plan rests soundly on empirical findings from the market feasibility report completed by Sharon Collard and Elaine Kempson at PFRC, and we therefore thank them for providing, as we had anticipated they would, the hard evidence of customer demand for Factor Four style service.

Finally, Jenny Saunders at NEA has been indefatigable in co-ordinating all our efforts and in ensuring we deliver the goods on time. Behind the scenes, Brian Hart at NEA and Genevieve Matthews at NEF deserve special credit for their superb organization of project administration and the thankless task of arranging interview dates and meeting times for both the research team and the Advisory Group.

Pat Conaty and Steve Bendle

Foreword

Ofgem is concerned about the issue of low income households who have no access to bank accounts or related financial services: without these, households are denied access to the cheapest bill payment options such a direct debit. In our Social Action Plan, published in March 2000, we took careful note of the Government's Social Exclusion Task Force on overcoming financial exclusion. Their recommendations included the wider development of basic bank accounts by the High Street banks, and development of universal banking services available through Post Offices. The Task Force also identified provision of further help for growth in establishment of credit unions as important.

Credit unions offer an important source of simple, low cost savings opportunities and affordable credit, and have been a valuable means of support to low income households in the UK for some years. However, their development has been slower here then in other countries, particularly compared with Ireland and the USA.

As part of the Social Action Plan research programme Ofgem set out to gain a greater understanding of the role credit unions could play in helping households in fuel poverty and the potential for credit unions to work with energy companies. We were therefore very pleased to be approached by NEA and NEF, who agreed to undertake a short scoping study. Recognising that there is a considerable overlap between fuel poverty and social exclusion, they developed the "Factor Four" model, which integrates four key areas of help for the fuel poor, based around provision of financial services: energy advice; budgeting and money advice; take up of energy efficiency measures; and bill payment services.

Ofgem was delighted that Npower then agreed to provide generous financial support for a full-scale study to be undertaken into the potential for "Factor Four". This funding has enabled NEA and NEF, with valuable input from the Personal Finance Research Centre at Bristol University, to: examine credit union experience in Ireland and the USA, investigate relevant services operating in Britain, and to undertake a feasibility study into " Factor Four" and draw up a business plan for pilot projects.

Their work makes it clear that, with sufficient support and funding to develop a viable model, an integrated service could become self-financing. This, in turn, could help the development of credit unions and community finance services in the United Kingdom. For our part, Ofgem will continue to encourage the companies we regulate to play an active role in the development of accessible financial services, which can be integrated into services for customers.

Callum McCarthy
Chairman, Gas & Electricity Markets Authority

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Executive Summary

Some four million households are in fuel poverty according to the Government's UK Fuel Poverty Strategy published in November 2001. A similar number of households, according to the Treasury, either have no bank account or limited access to financial services. Research highlighted in this report has shown a considerable overlap between cash paying households that are financially excluded and those households that suffer fuel poverty. Therefore a joined- up solution to tackle both forms of social exclusion simultaneously could potentially provide optimum benefits.

Under Ofgem's Social Action Plan, National Energy Action and the New Economics Foundation were commissioned to investigate this win-win possibility with particular regard to how credit unions and community development finance institutions might play a key role in operating a bill payment service for fuel and other household bills. This report was produced in July 2000 and highlighted the scope for a Factor Four integrated service involving:

- Money and budgeting advice;
- Bill payment through either a credit union or a community development finance institution;
- Energy advice – including guidance on savings from switching fuel supplier;
- Take up of energy efficiency measures.

In order to investigate the demand from low-income households for such a service, and to develop a business plan, in March 2001 National Power funded National Energy Action, New Economics Foundation and the Personal Finance Research Centre at the University of Bristol to operate as an inter-disciplinary team to assess the scope for a pilot project for Factor Four in the cities of Birmingham, Portsmouth and Liverpool.

Market Demand Findings

Market demand for Factor Four services was assessed both qualitatively through Focus Groups in the three cities and also quantitatively through a national Omnibus survey in Britain. This attracted a response from 1058 cash payer households. The main findings from the market feasibility study are among cash payer households:

- 11-12 per cent were attracted to a new bill payment service to pay cash for energy bills;
- 17-26 per cent were attracted to take up at least one of the Factor Four advice services without switching to the bill payment service;
- 4-18 per cent of households were interested in the full Factor Four service.

Of those who wished to take up the advice services on offer from Factor Four, 53 per cent were interested in energy advice, 38 per cent were interested in independent advice on fuel switching, and 36 per cent were interested in money advice. The findings show that taking a broad category of households who would be either fairly likely or very likely to use the services on offer, combining all Four Factors makes compelling sense as 11 per cent were attracted to the bill payment service on its own and 18 per cent were attracted to all four factors.

Households most attracted to Factor Four services

Those households least attracted to Factor Four services were older householders generally – especially those aged over 70 or outright owners of their home. Those most attracted and ideal targets for any pilot service for Factor Four include:

- existing credit union and community finance institution low-income members;

- households headed by people aged under 50;
- one and two parent families with dependent children;
- households with only one earner;
- homeowners with a mortgage;
- private sector tenants.

The market feasibility findings from the Omnibus survey identified a potential large market of between 2 million and 3.6 million households in Britain.

Community Reinvestment Partnership – Delivery Vehicle for Factor Four

The research team conducted fieldwork in England and Wales to investigate existing credit union and community finance best practice with a particular look at existing bill payment services. Additional fieldwork in the USA and Ireland was undertaken to learn from international experience among countries more familiar with credit union delivery of such services.

The Irish Money Advice and Budgeting Service (MABS), which has been funded by the Irish Government since 1992, combines money advice, bill payment and debt repayment services linked to credit union membership and provides a template for Factor Four services. Community Reinvestment Partnership has thus emerged as a prototype from this fieldwork. The MABS model over the past 10 years has worked well in partnership with local advice organisations and stakeholder participation by utilities, social housing providers, local authorities and the banks.

The social enterprise business plan highlighted in this report indicates that a Community Reinvestment Partnership (CRP) can operate as a delivery mechanism for social enterprise. In this way costs for advice services can be recovered and equitably apportioned through modest annual corporate subscriptions and small client referral sums per customer – both made on a voluntary basis by CRP stakeholder partners including energy and water utilities; the local authority; registered social landlords; and a local banking partner initially and other service providers in due course (telephone companies, catalogue companies, etc). Bill payment costs by CRP would be charged similarly to existing counter charges for such services by the Post Office and commercial providers.

The social enterprise business plan in this report shows that with similar customer turnover to that of MABS in Ireland, CRP can provide assistance to end fuel poverty and financial exclusion to just under 800 new customers a year at each CRP site with a staff complement of three full time workers. The business plan also shows that, with a modest capital investment over the first two to three years, each social enterprise site can become self-financing over five years.

Attitude of Potential Partners

The field work found much goodwill and support for Community Reinvestment Partnership among:

- Credit unions and community finance development institutions;
- Registered social landlords;
- Energy and water utilities;
- Banks and the Universal Banking Service of the Post Office Ltd;
- Financial Services Authority (FSA) and the Association of British Credit Unions;
- Money advice organisations, energy advice bodies and home improvement agencies.

In particular, the banks, the Post Office Ltd., the FSA and credit union bodies could see how Factor Four, in principle, might assist in the development of credit union and community finance services in a way that could complement and supplement the operation of the Universal Banking Service and basic bank accounts. The Post Office Ltd. in particular could see the scope for creative partnership in this area. The banks pointed out that their views were on the basis of the attraction of a good business case.

It should be noted that essentially what began conceptually as a single entity, the Universal Bank has grown into a partnership between banks, building societies, the Post Office Ltd and the Government to deliver a Universal Banking Service by working together as a delivery network. In just this same spirit of co-operative partnership, this report shows how the Community Reinvestment Partnership can extend this ‘universal banking network’ much further to help cash payers, those in debt, those with low skills in financial management and those in fuel poverty.

Business Case for the Registered Social Landlords, Utilities and the Banks

As the report highlights, MABS in Ireland, on large council estates in Dublin and Cork City, repays to creditors and utilities over IR£500,000 each year per site. MABS is popular with the Government, landlords and utilities simply because it saves money, prevents debt problems and provides access through the credit union partnership to affordable credit for low-income households.

In offering low cost micro-loans for clothing and other household needs through the referrals of its local area partnership, MABS circumvents the problem of low-income households being tempted to borrow from moneylenders at 250 per cent APR or more to cover fuel debts. The weekly doorstep collection of such high cost loans from tenants leads to such ill-affordable credit gaining priority over paying the rent.

MABS avoids this vicious circle of debt in a manner that basic bank accounts cannot as they do not provide access to low cost credit. Thus, on the basis of a similar approach to the Irish, Community Reinvestment Partnership with the addition of energy advice, energy improvement grant take up and cheaper tariffs for fuel has the potential to improve on MABS here in Britain by taking the innovative Irish model further.

In consultation, the banking sector acknowledges that the basic or introductory bank account is not a panacea for financial service exclusion. They are already supporting other community development finance institutions to meet small business lending needs more cost effectively, so the Community Reinvestment Partnership, if it can be piloted successfully, would complement and supplement the services of the introductory bank account. In any case, for energy and water companies as well as for the banks, supporting Community Reinvestment Partnership is attractive from the point of view of corporate social responsibility and scores high marks here both socially and environmentally.

Strategic Case for Government

Community Reinvestment Partnership also complements and potentially supplements other social inclusion measures of the UK Fuel Poverty Strategy such as Warm Front and Warm Zones. However, the Financial Service Authority drew attention to weaknesses among many credit unions which the new regulatory regime coming into force from 1 July 2002 for credit unions will need to tackle. It also emerged from the fieldwork, that in Scotland and Wales, credit union development funds have been established to tackle the weaknesses the FSA is concerned about through strategic funding and capital grants for staffing, IT and infrastructure needs such as shop fronts.

To date, such a national or regional programme of strategic investment for credit union development has not been implemented in England. There is an obvious need for this to be examined by the Government - at present, strategic development resources under the DTI Phoenix Fund exist throughout the UK to aid community development finance institutions scale up, but there is no comparable fund in England for credit union development.

Next Steps

The report shows that the Community Reinvestment Partnership can be self-financing as a social enterprise within five years. As with the prototype development of MABS in Ireland from 1992-94, funding for piloting is therefore recommended from April 2002 in Birmingham, Liverpool and Portsmouth with Birmingham to operate as a hub for national co-ordination. The pilot over two years should be independently evaluated by the Personal Finance Research Centre at the University of Bristol. Government funding on a matched basis should be provided to strengthen the credit union infrastructure in the pilot cities concerned. This funding should be complementary to the CRP pilot funding required of £500K for the three cities, as set out in this report.

Part I: The Context

1. Introduction

At least one in five households in the United Kingdom has either no access, or very limited access, to financial services. Similarly at least one in five households suffers fuel poverty. The Government has set out strategic objectives to reduce both fuel poverty and financial exclusion substantially over the next decade. As it is well known that there is considerable overlap between financial exclusion and those at risk of fuel poverty, the New Economics Foundation and National Energy Action were invited by Ofgem in spring 2000 to undertake an exploratory study to consider a 'joined up' approach to tackling this multi-faceted problem.

Under its Social Action Plan research programme, Ofgem sought guidance on ways that credit unions and community finance organisations could help reduce fuel poverty through bill payment services. Encouraged by the work of energy efficiency gurus, Amory and Hunter Lovins (Weizsacker, Lovins and Lovins, 1998) on clever ways to 'double wealth with half the resource use', NEF and NEA (2000) set to work. As an outcome of the exploratory study, a 'Factor Four' service was designed which would aim to secure both synergy and levered efficiency through an approach delivered by a 'radical' Social Enterprise organisation. The four services are integrated in the delivery proposed and cover:

- Energy advice (including savings by fuel switching);
- Budgeting & money advice;
- The take up of energy efficiency measures;
- Credit union or community finance bill payment.

From the results of the exploratory study, Factor Four appeared likely to succeed given the opportunity to develop a robust prototype. The special attraction of Factor Four is that the exploratory study indicated the scope for such a Social Enterprise venture to become, over the medium term, self-financing if provided with sufficient pump-priming seed capital.

This business plan confirms the considerable market demand for Factor Four services from over 2 million low-income households and provides an innovative financial model for social enterprise delivery.

Additionally, based on the success of the Money Advice Budgeting Service (MABS), a somewhat similar service in Ireland, the business plan shows how a Community Reinvestment Partnership as a delivery vehicle can also advance the development of both credit union and community finance services, and thereby provide additional ways to supplement the operations of the Universal Banking Service in reducing financial exclusion.

1.1 Fuel Poverty and Financial Exclusion – the Policy Context

The bad news is that poverty has increased substantially in Britain over the past twenty years. The good news is that there are some signs at last that this trend has been halted and is likely to be reversed in the wake of positive government action. Nevertheless, according to the most comprehensive and scientifically rigorous study in Britain ever undertaken into poverty and social exclusion by the Universities of Bristol, York, Loughborough and Heriot Watt, with fieldwork undertaken by the Office for National Statistics (ONS), poverty became substantially worse from 1983 to 1999. In 1983, 14 per cent of households lacked three or more necessities because they could not afford them (Gordon et al, 2000). That proportion increased to 21 per cent in 1990 and to over 24 per cent in 1999.

Of the top 54 necessities of life the top three, regarded as indispensable by over 93 per cent of British households, include beds and bedding, heating and a damp-free home (Gordon et al, 2000). Yet one per cent of households last year did not have heating in the home, six per cent were living in a damp home and over 17 per cent could not afford to keep their home warm. This study also found that 10.5 million people suffered from financial insecurity.

Fuel poverty is defined as the situation whereby a household has to spend over 10 percent of their weekly income on energy bills to keep a warm, well lit home. In an Energy Follow Up Survey in 1998 to update the 'English House Condition Survey 1996: Energy Report' (DETR 2000), it was found that between 3.3 million and 4.5 million households suffered fuel poverty in England alone and that 1.3 million households were in severe fuel poverty, needing to spend more than 20 percent of their income on energy services. This was compared to an average British household's expenditure on fuel of 4 to 5 per cent (Ofgem 2000). Approximately three in four of those experiencing severe fuel poverty are owner occupiers or rent within the private sector.

The variance in statistics for the extent of fuel poverty results from different definitions of what comprises household income (NEA 2000-2001). The interpretation of figures in this regard is a bone of contention between consumer advocates who exclude housing-related benefits and housing costs from income, and government departments which do not make these exclusions. However despite the disputes over how best to calculate the fuel poor, there is a widening consensus that it is socially unacceptable in an energy rich country like the United Kingdom that fuel poverty should affect, on the Government's latest estimate, at least 4 million households or one in six.

The conditions and household circumstances giving rise to fuel poverty include:

- Low income;
- Thermally inefficient housing and disrepair problems;
- Reliance on expensive fuel sources and inefficient appliances;
- Greater time in the home and need for energy services due to unemployment, retirement, or lone parenthood;
- Expensive systems of payment for those without access to conventional financial services.

The categories of household most likely to be fuel poor include lone parents, older people and people living on their own. Fuel poverty contributes to excess winter mortality rates among the elderly in the UK which are the highest in Europe. In 1999/2000 there were 46,520 excess winter deaths over the period December to March (NEA 2000-2001). On a mortality basis this total is three times the excess winter death statistics of much colder countries in Europe such as Germany and Norway.

If we take the average rate of fuel poverty as somewhere mid-way between the lower and higher estimates of the English House Condition survey, then 3.9 million households in England are affected by fuel poverty (20 per cent). Evidence from separate studies of fuel poverty and financial exclusion indicates a strong degree of overlap between the low-income households affected.

In its report to the Social Exclusion Unit in 1999, the Treasury found, from data published by the British Bankers Association, that between 6 and 9 per cent of individuals did not have a bank or building society account. Drawing from this and other data available, the Treasury concluded in its Policy Action Team 14 report that on best estimates:

- 1.5 million households (7 per cent) in Britain lack any financial products;
- A further 4.4 million households (20 per cent) only have a very limited access to financial services;

- Between one in five and one in eight households do not have a current account.

In a more recent NOP survey commissioned by the Financial Services Authority (2001), 17 percent of households were found not to have a current account, and among the poorest households in social Grade E, almost one in two (47 per cent) did not have a current account.

While the introduction of a basic bank account by all commercial banks and major building societies since October 2,000 has begun to reduce these numbers, Sthe problems of financial services exclusion, like fuel poverty, affects to one degree or another one in six to one in four British households and especially those households on the lowest levels of income.

Being outside the financial services payments systems costs low-income households much more in repayment related expenses. The Treasury (1999) observed that the 'difference between paying by the most expensive method, prepayment meters, and the least expensive, direct debit, taking gas and electricity together, averaged £78' in extra costs annually – or for 'the low-income households affected, this amounts to a tax of roughly 1 per cent on their household income.'

Ofgem has reported in a Mori study published in November 2001, that among those households without a bank or building society account, 54 per cent are on a prepayment meter for electricity and 40 per cent are on a prepayment meter for gas. The Mori study revealed that fewer than three in ten would change to another payment method, even if it meant a reduction in the price of their fuel. The findings here, as in other previous Ofgem (2000) studies, show that prepayment meters are attractive to the majority of households because of their perceived benefit as a budgeting tool.

1.2 Government Action on Fuel Poverty and Financial Exclusion

The Government's Social Exclusion Unit's findings, from evidence drawn from 18 Policy Action Teams looking at poverty and neighbourhood disadvantage, highlight a widespread lack of access to goods and services among disadvantaged households that most British households take for granted. Service exclusion included affordable energy services, banking and money transmission, household insurance, telephone and other essential services. Lack of, or tenuous links to, such modern services in combination, according to studies such as that carried out by Suzanne Speak and Steve Graham (Policy Press, 2000) on council estates in Liverpool and inner city areas of Newcastle upon Tyne, reveal a multi-faceted structure of social exclusion. The Government's National Neighbourhood Renewal Strategy (2000) calls for an integrated approach to tackling this vicious circle of compound exclusion.

Fundamental to much social exclusion is a debt trap for many which is a vicious circle. According to the Debt on Our Doorstep Campaign supported by over 30 national voluntary organisations (including Oxfam, Church Urban Fund, Child Poverty Action Group, Help the Aged, Barnardos, Family Service Units, YMCA England, National Housing Federation, Citizen's Advice Scotland and the Money Advice Association) over 1.5 million households approached their local Citizens Advice Bureaux (CAB) for help with debt problems in 1999-2000; this was a rise of 37 per cent by comparison to 1997-1998. Based on Consumer Credit Association data, over 3 million low-income households turn to moneylenders for credit to meet pressing needs at loan charges ranging from 100% to 500% APR (Church Action on Poverty and Debt on Our Doorstep, 2001).

Among the financially excluded, the British Bankers Association (1998) has reported that 30 per cent have debt problems and struggle with bills. Debt on Our Doorstep estimate that financially excluded households spend on average an extra £5 per week to operate their cash payment system of budgeting.

The National Association of Citizens Advice Bureaux has reported that its advisors have seen a 40 per cent rise in debt levels for households with severe debt problems. A typical multiple debt case handled by a Citizens Advice Bureaux in 2001 involved credit and unpaid arrears on bills outstanding of £10,700 (Inman, 2001).

The Government has taken action to reduce financial exclusion in several ways:

- Requiring the introduction of basic banking accounts by all major banks and building societies;
- Furthering the development of the Universal Bank Service to ensure that the Post Office network can operate more in future as a provider of financial services to all households;
- Modernising credit union legislation to enable faster growth in areas of disadvantage;
- Ensuring, through the Housing Corporation and the Local Government Association, that registered Social Landlords work with the insurance industry to promote low-cost household insurance that is integrated with rent payments;
- Developing financial education and literacy initiatives through schools, the Financial Services Authority and through the Community Finance and Learning Initiative;
- Supporting through the Social Investment Task Force recommendations and the DTI Phoenix Fund, the growth of Community Development Finance Institutions.

In respect to fuel poverty, the Government established an Inter-Ministerial Task Force in November 1999 which, after consultation, finalised The UK Fuel Poverty Strategy (2001) to eradicate the problem over the next 15 years. This strategy gives guidance on the Warm Homes and Energy Conservation Act 2000 which requires the Government to monitor and assess progress in tackling fuel poverty - initially until 2010 - by targeting the most vulnerable households (defined as the elderly, disabled or those with a long-term illness, and families with children on low income). The UK strategy to end fuel poverty seeks to assist 1.1 million vulnerable households by 2004 through the delivery of improved heating and insulation measures.

While the Government in recent years has increased the Home Energy Efficiency Scheme grants and other revenues to assist with energy efficiency measures, the additional resources to tackle fuel poverty are not clear from the draft strategy. The introduction of Warm Zone pilot areas in 2001/2002 indicates a potential framework mechanism to co-ordinate the more than 40 separate energy efficiency schemes in the country that could help reduce fuel poverty. In this context, the fuel supply industry has called for the establishment of a Fuel Poverty Czar with strong powers to ensure steady annual progress towards this policy objective (Electricity Association 2001).

The Government has also requested that the regulator Ofgem produce a Social Action Plan to clarify its role, along with that of other agencies, in working to end fuel poverty. In respect to tackling the inter-related problems of both fuel poverty and financial exclusion the following three out of ten Social Action Plan (Ofgem 2000) objectives were set:

1. Ensure that customers using expensive payment options have a better means of accessing cheaper methods of payment;
2. Encourage the development of tariffs and cost-effective payment methods which meet the needs of vulnerable customers;
3. Encourage and develop innovative schemes to improve energy efficiency in disadvantaged households.

While poverty has increased substantially over the past twenty years up to 1999, according to the Poverty and Social Exclusion in Britain study by David Gordon (2000). However, the latest national surveys on poverty and social exclusion for 1999/2000 show positive improvement according to several indices, namely median income levels, heating, and measures related to child poverty and the circumstances of the elderly (Rahman, Palmer and Kenway, 2001). Additionally, the Government's own monitoring of the effects of its strategy to reduce poverty and social exclusion have measured improvements in recent years (Department of Work and Pensions, 2001). It therefore appears that the poverty trend is now reversing. Indeed, the Government estimates in the UK Fuel

Poverty Strategy that from 1996 to 2000, the number of fuel poor in the UK has fallen from 5.5 million to 4 million households.

1.3 Ending Fuel Poverty – a Factor Four Approach: Terms of Reference

In considering means of payment for low-income households, beyond the basic bank account and the Universal Banking Service, Ofgem took note of the Treasury Task Force recommendations on credit union development to better meet the needs of low-income households. In this appraisal, the Social Action Plan concluded that 'Ofgem see scope for utilities to play a role in development of credit unions, to the mutual benefit of the credit union movement, the utility companies and their customers.'

To this end, National Energy Action and the New Economics Foundation were commissioned to do an exploratory study reviewing existing credit union and community development finance institution involvement in bill payment and fuel poverty action. The report of the study, 'Ending Fuel Poverty – a Factor Four Approach' (NEA and NEF, July 2000) called for an integrated service delivery approach to the four main causes of fuel poverty namely: poor housing conditions, low income, expensive payment systems and barriers to benefiting from open market competition.

The Factor Four approach to these inter-linked problems recommended by the report includes:

Factor One: a cost-effective bill payment and debt repayment service through a credit union or community development finance institution;

Factor Two: a budgeting and money advice service to maximise income and resolve debt problems;

Factor Three: a comprehensive energy advice service to ensure the take up of energy efficiency grants for thermal improvements to the home and energy efficient household appliances;

Factor Four: an independent and non-commercial advice service to help households benefit by switching to a more advantageous tariff or cheaper supplier.

With a view to designing a pilot service, NEA and NEF proposed a market feasibility study to be carried out by the Personal Finance Research Centre at the University of Bristol, and for a full business plan on the Factor Four model to be jointly produced by NEA and NEF, based on site fieldwork in England, and on an analysis of relevant credit union systems effectively working to reduce financial exclusion in the Republic of Ireland and the United States. The exploratory study identified Portsmouth, Birmingham and Liverpool as three promising cities in the South, Midlands and North of England, with credit union and/or community development finance institutions, both able and interested in participating in a national pilot. The detailed terms of reference and methodology agreed for both this Business Plan and the separate Market Feasibility Study by the University of Bristol are set out in Appendix 1.

2. Credit Union Services for Financial Inclusion – Britain, Ireland and the USA

While credit unions in Great Britain have been legally recognised financial institutions since the Credit Unions Act 1979, their development has been slow by comparison to other countries. In the USA more than one in four households are credit union members and in Ireland membership is more than one in two. In Great Britain, credit union membership has thus far been taken up by only about one per cent of households.

While the history of credit unions has been internationally driven by efforts to combat financial exclusion, the success of the American and Irish credit union movements today has oriented them steadily more towards middle-income households where transaction costs are lower and business turnover is more profitable. However, in both countries, efforts have been made to continue to target services towards the financially excluded, and these initiatives are of particular interest since assistance to help household budgets, make easy bill payments, obtain financial advice on money problems and deal with debt, feature centrally in current American and Irish practice. The lessons learned from this experience are vitally important in guiding a British pilot scheme in these areas.

2.1 Credit Unions and Community Finance – The Growth Challenge in Britain

In a report for the Joseph Rowntree Foundation, *Small is Bankable,* the New Economics Foundation (1998) highlighted the steady growth of Community Finance Initiatives (CFIs) both in the UK and abroad and, in particular, their capacity for reducing financial services exclusion for those outside the banking system. As regards bill payment systems and affordable credit facilities for low and moderate income households in Britain, the two most relevant CFIs are credit unions and community reinvestment trusts.

Credit Unions

The most numerous of CFIs are credit unions. Governed by the Credit Unions Act 1979, they are co-operative savings and loans institutions which up to December 2001 were registered and regulated by the Registry of Friendly Societies, but are now the responsibility of the Financial Services Authority (FSA).

At present there are just under 700 credit unions operating in Britain with some 325,000 members and over £215 million in assets. As co-operative institutions, in Britain historically they have principally divided into two main categories of 'common bond': those organised for the benefit of a specific locality, known as community credit unions, and those organised for the benefit of a particular group of employees, known as employee credit unions. A third common bond involves those who share the same associational membership (e.g. traditionally religious and more recently trade union) but this is less common numerically.

In recent years the FSA has, under amended legislation, approved merged forms, known as 'live or work' common bonds, and increasingly new credit unions are being registered under this bond, which allows for larger credit unions to operate across an entire city, such as Leeds or Edinburgh.

Although numerically fewer in number than traditional community credit unions, the biggest workplace credit unions are approximately the size of some of the smallest building societies with assets well over £20 million. Such credit unions have thousands of members, employ several full-time staff and increasingly are providing a wider range of financial services for their members. The larger ones are organised for the benefit of Glasgow City Council staff, British Airways employees, London taxi drivers, the West Midlands police and the Scottish Postal Workers. Members are attracted by a dividend on savings and inexpensive rates for unsecured credit which, at a maximum legal rate of only 12.68 APR, is considerably below that of many bank and credit card products for unsecured loans. With interest rates falling in recent years, many of the larger credit unions offer loans currently well below the maximum rate.

While many low-income workers are served by employee credit unions, financially excluded households are more specifically targeted by community credit unions which commonly seek to serve disadvantaged neigbourhoods. However, these community credit unions are growing in membership at much lower rates. By stark contrast to employee credit unions, community credit unions typically have a few hundred members and, in all but a few cases, are run entirely by volunteers. They normally operate out of community centres and church or village halls and ordinarily only open for business a few days a week for a few hours.

However, this picture is changing. While British credit unions only cater for one per cent of British households (i.e. approximately 325,000 members in 2002), their longer established cousins in the USA, Canada and Ireland indicate the future potential if the right marketing and development strategy can be found.

In a 1997 report for the National Consumer Council, the New Economics Foundation indicated several successful ingredients for ensuring more rapid community credit union growth in Britain, based on an analysis of needs expressed by consultees and drawing on best practice from the USA and to a lesser extent Ireland. The key recommendations included non-member ethical investment, investment in IT, larger common bond areas and mergers, a national share protection system, wider flexibility with regard to the provision of accounts and services, and a national development framework. Most of these recommendations have been endorsed by the Treasury Task Force on Credit Unions (1999) and are now being implemented. The introduction of these reforms and other measures in the past year or so thus provides a good foundation from which future healthy growth should be witnessed now year on year.

In its strategic assessment of community credit union growth inhibitors, the Treasury Task Force highlighted on the one hand previous overly-restrictive legislation and, on the other hand, ineffective investment policies on the part of a plethora of unco-ordinated public sector subsidies. An additional impediment according to the National Consumer Council and acknowledged by the Financial Services Authority has been a divided trade representation.

The lead recommendation of the Treasury Task Force was to emphasise the support that all credit unions might gain from the development of a central services organisation (CSO), offering the potential of back office processing of transactions, assistance with new product development, a national investment fund service and more efficient inter-lending of funds between credit unions.

The Treasury Task Force also recognised the need for community credit unions to secure paid and professional staff and to move to appropriate premises (perhaps in some circumstances provided by banks and building societies at peppercorn rents) to enhance their growth and development.

The reports by the Task Force and the New Economics Foundation, as well as a similar report by Paul Jones (1999) of John Moores' University, all identified similar reforms and measures that would enable credit unions to grow substantially and, in perhaps ten years' time, begin to resemble credit unions such as the Derry Credit Union in Northern Ireland, which operates city wide, has 22,300 members and an annual turnover of £4 million.

Path-finding community credit unions such as those highlighted by the Treasury and Paul Jones are already operating with paid staff on a full time basis and showing the same effectiveness and capacity to expand as the most successful employee credit unions. These credit unions include Dalmuir in Glasgow with £4 million in assets and over 4,000 members and East Kilbride with over £1.6 million in assets and 3,000 members.

To make such exceptional community-based credit unions more common in future, and following recent deregulation measures and legislative modernisation, the Financial Services Authority is both approving larger common bond areas than had ever been considered before (e.g. Leeds metropolitan area) and encouraging mergers to strengthen the capacity of small credit unions. Widespread use of the new mixed common bond of 'live or work' in a variety of geographical areas across the country is allowing the emergence of stronger credit unions with a more mixed income membership. Thus the restrictions that held back growth in the past are rapidly being removed and future services such as the wider use of bill payment will be more commonplace with further legislative reforms coming into force in July 2002.

Community Reinvestment Trusts

In addition to credit unions there is a range of other CFIs in Britain, from micro-credit organisations which specialise in loans to the self-employed to Community Loan Funds which lend to small businesses, voluntary organisations and community enterprises. These CFIs do not specialise in lending for household needs but there is a new group of Community Loan Funds that do target personal lending requirements in innovative ways.

These Community Reinvestment Trusts are presently under development in Blackpool, Blackburn, Derby, Sandwell, North Lancashire and Suffolk. The first two have commenced operations already: Portsmouth Area Regeneration Trust and Salford Money Line. Like most other Community Loan Funds, Community Reinvestment Trusts are constituted as local mutual organisations and are registered with the Financial Services Authority as Industrial and Provident Societies for Community Benefit.

Like credit unions they raise capital by issuing withdrawable share capital. Unlike credit unions they can, in addition to recruiting individual investors, raise ethical investment from banks, building societies, local businesses, foundations, churches and other incorporated social investors.

The development of the growing range of Community Reinvestment Trusts (CRTs) has been supported by research work at the Centre for Community Finance Solutions at the University of Salford. The first two CRTs in Portsmouth and Salford have been sponsored respectively by their local authority, a local housing association, and a local financial institution (i.e. Lloyds Bank in Portsmouth and Barclays in Salford). In addition the CRTs are attracting support for their infrastructure needs and running costs in their development period through regeneration funding from Regional Development Agencies.

Community Reinvestment Trusts are intended to cover a larger geographical area (i.e. a city or rural region) than most Community Credit Unions. They also seek to raise levels of capitalisation (e.g. £1 million to £4 million) and/or adequate revenue to enable them to employ paid professional staff in the first few years of their establishment. In Salford and Portsmouth, credit union activity was weak to begin with – hence the feeling that a novel CRT approach might work better. Nonetheless there are several community credit unions in each city and both Portsmouth Area Regeneration Trust (PART) and Salford Money Line seek to complement credit union activity, and to strengthen it through building partnerships wherever possible. Indeed in Portsmouth, PART has shared offices with the Portsmouth City Savers Credit Union and is collaborating more closely each year through a local partnership.

CRTs focus on personal credit needs, but this can be either for household or for enterprise needs. PART and Salford Money Line have only been lending for just over a year. Finance is available for those unable to get a loan from a bank or building society for day-to-day needs such as self-employment or micro-enterprise, family needs, home improvements, training needs and refinancing of high cost credit.

Interest rates for loans to date are slightly higher to the charges made by credit unions (i.e. 15% APR). As with credit unions, CRTs are well aware of the high costs incurred by low-income households for cash payment arrangements or through prepayment meters.

Clearly in respect to reducing financial services exclusion, one must avoid reinventing wheels. In this regard through awareness of more commonplace bill payment and money transmission services operated by community finance bodies elsewhere, such as credit unions in Ireland and in the USA, both British credit unions and Community Reinvestment Trusts can gain many pointers on future development in this area from very effective international practices.

2.2 Irish Credit Unions and the Money Advice and Budgeting Service

The Irish credit union movement began in the 1950s – some twenty years ahead of the British movement. The first credit union, Donore Credit Union, was registered as a Friendly Society in Dublin in 1958. Credit union legislation was originally passed in 1966, updated in 1997 and today there are almost 600 affiliates to the Irish League of Credit Unions - which also includes credit unions in Northern Ireland serving the Catholic communities. Credit union membership exceeds 2 million, or some one in two of the population, and assets in saving capital among all credit unions is more than IR£3 billion.

A National Market Report in 1995 examined the social class profile of credit unions and highlighted that two in three credit union members were either C2 (skilled manual) – 33 per cent or DE (unskilled & welfare) – 32 per cent. Data on the size of loans gathered by Jim Walsh (1998) of Combat Poverty Agency in Dublin reveal that Irish credit union lending complements that of the Irish Banks and Building Societies because of its micro-credit nature:

- Three quarters of loans were under IR£1000;
- Half were under IR£500;
- A quarter were under IR£250.

With loan charges at one per cent per month on the reducing credit balance (an APR of 12.68 percent), the importance of this source of low-cost credit for low and moderate income households in Ireland highlights the importance of Irish credit unions as the major social lender nationally.

However, among the one in two households not in credit union membership, Ireland has similar significant numbers, comparable to Britain, of households with no financial services at all apart from down-market lenders including money lenders, pawnbrokers and loan sharks charging for credit at 50 – 300 per cent APR or more.

A report by Jim Walsh and Mary Daly in 1988 for Combat Poverty, *Moneylending and Low Income Families,* highlighted the wide extent of financial exclusion and multiple debt among low- income households, but also showed the lack of access by most of these households to credit union services. The report received significant coverage in the Irish media and recommendations to develop both money advice services and credit union access were steadily implemented in the early 1990s.

Budgeting and Payment Services for Low-Income Households in Debt

Initial efforts in 1990 to assist low-income households focused on enabling them to move away from the services of moneylenders, through a revolving Loan Guarantee Fund of IR£200,000 which was equally capitalised by the Irish Department of Social Welfare and the Irish Bankers Association. The guarantee fund was conceived to allow credit unions to refinance expensive moneylender credit without exposing them to financial risk. Attempts to persuade the Irish League of Credit Unions to manage the fund failed but the project nevertheless went ahead with the support of the St.Vincent de Paul Society charity. Widespread borrower knowledge that the loans were guaranteed contributed to a high default rate, which was unsustainable, and this experiment was modified with a new and more comprehensive approach in 1992.

The design of the new approach was taken from a novel credit union service developed in 1986 in Cork by Brendan Roche. He was the credit controller of the Lough Credit Union and observed during household visits how moneylenders were entrapping households with multiple loans. Roche's investigation indicated that this was contributing to credit union loan arrears, as the moneylenders made themselves a priority creditor by collecting on the doorstep on the day when the household either had their wages paid or received their pension or social security allowance.

Roche established a Special Account to help people budget for bills and so avoid borrowing for a quarterly fuel bill or other weekly or periodic outgoings. The Special Account also enabled debts to be repaid through a single weekly payment for all bills and liabilities. By 1991 the Lough Scheme, as it was known, was growing in popularity with a repayment turnover of over IR£50K per year among Lough credit union members alone.

Taking particular note of the Lough Scheme's promise, the Irish Department of Social Welfare agreed to fund a national pilot scheme called the Money Advice and Budgeting Service (MABS) in 1992 and the five sites selected for the pilot were Cork, Dublin, Limerick, Waterford and Kilrush. The concept of MABS had several major objectives including:

- Assisting people with debt problems to obtain independent money advice to reschedule their liabilities and regain control of their finances;
- Educating service users with money problems about practical ways to budget and to manage their finances to meet their bills and to steadily repay their debts in an affordable way;
- Enabling service users to repay their bills and debts through a Credit Union Special Account (the Lough Scheme), or alternatively through the Post Office budget scheme or a bank of their choice;
- Providing access to affordable credit via a local Credit Union for emergency needs, clothing, Christmas and other periodic requirements;
- Promote sound financial management ideas to the local public, schools and community groups through regular outreach talks and education initiatives.

Unlike the previous initiative in 1990, MABS put the emphasis on debt resolution, budgeting assistance and readily accessible payment services for regular bills and historic debts. The loan guarantee fund was maintained, but in a discrete manner, and not used to refinance debts (though this was not ruled out) but to assist households access small loans for periodic needs up to a ceiling of IR£300.

Over a two year period more than 5000 users participated and over 1000 special accounts were set up. This 20 per cent conversion rate was considered a success although the previous programme in Cork had achieved a rate of 40 per cent. In Cork, the Special Account annual turnover during the two year MABS pilot rose from IR£50K at the end of 1991 to IR£280K at the end of 1994.

The success of the five pilots led to Government approval for a national programme of 50 MABS centres, each with an average staff of three. Current Special Account Services assist 40,000 households with a repayment turnover in excess of IR£14 million. Average yearly bill and debt repayments per client are IR£350.

The service is entirely funded by the Irish Government at present with some supplementary funding coming from the Irish Bankers Federation for the training of money advisors. However, it must be noted that unlike the UK, privatisation has not proceeded widely in Ireland and the Government is a major beneficiary of this service since social housing, gas and electricity are still in the public sector.

Operation of the Special Account and the Advice and Budgeting Service

The MABS system has three main aspects to its service which are highlighted below:

Stage One: Debt and Money Advice

Each local MABS is governed by a committee of partner agencies including representatives from the local authority, the credit unions locally, the area Health Board, the Department of Social Welfare, the Citizens Information Centre, the Society of St. Vincent de Paul, the Police, community development organisations and other voluntary agencies. The partnership works to ensure a strong referral network of service users. Clients are seen by appointment at the MABS office normally but also through home visits and sometimes at the local credit unions. The debt and money advice services are professionally delivered and better-funded than comparable services in Britain. The money advisors employed by the service work to:

- Check households' entitlement to welfare payments and maximise their income;
- Compile with the household a Budget Plan covering in detail income and outgoings;
- Negotiate with creditors repayments of debts in an affordable way with an emphasis on ensuring payment regularly of priority debts (i.e. housing costs, energy bills, and taxes);
- Arrange with clients a repayment facility either with a local credit union, the Post Office or a local bank.

Stage Two: Special Budget Account – the Credit Union Linked Service

The Special Budget Account is growing in popularity with MABS users and steadily more credit unions nationally are agreeing partnerships with MABS advisors in the operation of this service. In the few areas of the country where the links by MABS advisors to their local credit unions are weak or undeveloped, repayment arrangements are alternatively made available through a local bank branch or the Post Office budget account service. The Special Budget Account service operates in this way:

- Money advisors introduce the client to the credit union in their local area and assist them as necessary to open both a Savings Account and a Special Account;
- In opening the account, the client signs an authority for the credit union and the MABS office to share confidential client financial information to operate the bill payment and debt repayment services;
- The client agrees to make regular weekly payments to the credit union for the essential outgoings and debt repayments agreed as per the Household Budget Plan. Wherever possible, an additional sum is paid each week into the Savings Account to meet future needs for clothing, birthdays, repairs and Christma;
- Each month the MABS prepares invoices payable by the credit union to the client's creditors on the basis of the sums paid into the Special Account. Where insufficient sums have been paid in, the MABS service makes payments to priority creditors such as the landlord or mortgage provider and gas and electricity companies;
- Accounts are bundled by MABS to the creditors on collective client account systems and the credit union prints one cheque per month for each creditor.

Stage Three: Client Access to Loan Services of the Credit Union

The MABS service has been designed not only to enable households to regain control of their financial circumstances, but also, over time, to move from expensive but convenient door-step moneylenders to greater use of the credit union's savings and borrowing services. To enable the client to have quicker access to credit than through the customary savings period, which is an unrealistic struggle for those heavily laden with debt problems, the client's regularity in making consistent payments into the Special Account is used as a test of potential creditworthiness and reliability. The lending service operates in this way:

- After the client has established a history of regular Special Account payments, an advisor discusses with the client future needs that might tempt the household to take out further expensive credit with a moneylender;
- Client is advised that small loans can be available through the Special Account;
- MABS office manager holds in each local partner credit union a loan guarantee sum which is a secret account held in complete confidence;
- Client discusses loan need with the MABS advisor (repayment of debts is normally ruled out) and an interview with a credit union loan officer is arranged;
- Confidentially the MABS advisor confirms a loan guarantee for each loan approved;
- Client goes to the credit union to sign the loan agreement and to collect the money;
- Small repeat loans of under £300 can be secured on this basis but larger loans require (apart from special circumstances) the client to build up funds in their Savings Account and apply under the normal rules for credit union loans (e.g. for sums on the basis of two or three times savings).

Interviews were held with both MABS and Credit Union managers in the following locations:

- Tallaght – Dublin's largest housing estate
- Kilkenny – a market town with the largest community credit union in Ireland (i.e. 30,000 members)
- Dungarvan – a seaside town in West Waterford
- Cork City – the pioneer of the Lough Scheme and a MABS partnership with 18 local credit unions.

The Special Budget Account service in Cork is now processing over IR£525K per year and in Tallaght the payout has just surpassed IR£500K annually. In the rural towns of Kilkenny and Dungarvan, the payouts in the year 2000 were respectively IR£214K and IR£150K. The MABS offices do not need to advertise much as in most cases they have a waiting list for appointments. The potential for greater turnover is restricted by the number of advisors in each location. However this is carefully monitored locally and nationally and MABS advice team numbers are periodically strengthened by additional Government funding on a site by site basis in the light of unmet service demand evidence.

The loan service is less developed than the advice, budget and payment services. Nationally though the MABS staff are committed to addressing more proactively development in this area in the years ahead. However since the secrecy of the loan guarantee mechanism has been established loan debt problems for small sums has been minimised. In the one case where this secrecy was breached, in Tallaght, loan arrear problems emerged. The Special Budget Account payouts below, by the Cork City MABS, illustrate the breakdown of remittances – including those on credit union loans outstanding.

Special Budget Account Turnover – Cork City MABS		
	1999	**2000**
Local Authority Housing Department	104,441	97,274
Banks, Building Societies, Credit Cards	140,820	135,485
ESB (Electricity Board)	78,965	77,714
Bord Gais (Gas Board)	33,742	37,403
Eircom (Telephone Company and others)	86,626	98,375
Moneylenders	20,109	22,974
Credit Unions	49,461	60,111
Annual Total	IR £514,164	IR £529,336

In respect of energy bill and debt repayment for gas and electricity as proportions, this totals 21.9 per cent in 1999 and 21.7 per cent in 2000.

2.3 American Community Development Credit Unions and Specialist Services

There are over 90 million credit union members worldwide but three in four are resident in the USA. With over 10,000 registered credit unions, the USA also accounts for more than one in four of credit unions globally as well. The first American credit union was registered in 1908 in Manchester, New Hampshire and by the time the Federal Credit Union Act of 1934 was passed, there were 2,067 credit unions operating in 34 states.

Over the past twenty years, the larger credit unions have operated increasingly like full service banks and the average membership in most credit unions, as with UK building societies,has become middle class. To address the general drift of most American credit unions up market, a dedicated trade association for credit unions catering for the needs of low and moderate income households was founded in 1974 – this is known as the National Federation of Community Development Credit Unions (NFCDCU), with a head office in New York City.

The US Treasury through the operation of its Community Development Finance Institutions (CDFI) Fund recognises NFCDCU members as credit unions that act in a dedicated way to reduce financial services exclusion. Accordingly, NFCDCU aids members to meet strict, competitive criteria to qualify for grant assistance under the CDFI Fund, other Government programmes, as well as from banks and other US Corporations and foundations in order to develop innovative services to assist the unbanked. Assistance available to develop services that help reduce financial services exclusion in the USA include direct grants, low coupon investments, discounted loans, and social investment deposits.

At the end of December 2000, NFCDCU had 200 credit union members. The average age of its members as institutions is 29 years and the average asset level per credit union is $9.1 million. The average CDCU membership level is 3,056 with an average lending balance to members of $6.7 million per CDCU. In the year ending 31 December 2001, NFCDCU members:

- Issued more than $663 million in loans to 204,000 borrowers;

- Saved their 602,000 members $100 - $300 million in interest that might otherwise have been incurred in credit from moneylenders, pawnbrokers and pay-day lenders;

- Paid $37 million in dividend payments on member saving accounts.

Information on financial services of relevance to British low-income households was gathered through site interviews in New York State with managers from:

- Lower East Side People's Federal Credit Union on Manhattan, New York City

- Bethex Federal Credit Union in the Bronx, New York City

- Union Settlement Federal Credit Union, in Harlem, New York City

- Alternatives Federal Credit Union, in Ithaca, New York

Further information was obtained at the national conference of the NFCDCU held in New Orleans, Louisiana. Credit union services were examined in some detail through seminars and workshops, and one-to-one interviews at the conference focused on specialist services to reduce financial services exclusion being pioneered by Santa Cruz Community Credit Union (California), Faith Community United Credit Union (Cleveland, Ohio), Appalachian Development Federal Credit Union (Ohio), ASI Federal Credit Union (New Orleans, Louisiana), Self-Help Federal Credit Union (Durham, North Carolina) and Progressive Neighborhood Federal Credit Union (Rochester, New York). Additional interview and discussion sessions were carried out with staff from the NFCDCU both at the conference and in New York.

Lower East Side People's Federal Credit Union – Profile One

Lower East Side People's Federal Credit Union (LESPFCU) was organised to replace the last commercial bank branch in a densely populated low-income neighbourhood in lower Manhattan, in New York City. Local residents challenged the closure of this bank by Manufacturer's Hanover Trust under the US Community Reinvestment Act (CRA). At its opening on 1 May 1986, NFCDCU presented the initial deposit of $5,000. Six months later as a result of a successful CRA legal challenge by the local community, an agreement was struck with Manufacturer's Hanover Trust to lease their vacant bank building to LESPFCU for two years at a pepper corn rent, to make a social investment deposit in the credit union of $100,000 and to provide grant support for a limited period for staffing. In its first five years LESPFCU built up a deposit base of $2 million and reinvested more than $1.8 million to low-income borrowers – mostly Hispanic and African-American. Today its assets are over $6 million and its new loans issued are running at $1million a year – some three times the volume in 1991. Its membership level is over 3500 and it is presently developing a second branch office to significantly expand its membership and provider wider access to services locally.

Credit Path Strategy – Process Model for Reducing Financial Services Exclusion

Bill Myers, Founder and Manager of Alternatives Federal Credit Union in Ithaca, New York has developed a process model for helping low-income households overcome disadvantage and the lure of moneylenders. He calls this CDCU strategy the 'Credit Path'. The four stages of development and a path to opportunity are as follows:

1. **Transactor**: for those with limited income or in debt, payment and money transmission services are either extraordinarily expensive or unavailable. CDCUs need to develop affordable payment and budgeting mechanisms to help overcome this problem.

2. **Saver**: traditionally credit unions provide this as the first stage, but increasingly they cannot attract low-income members without first tackling the transactor problem. Savings can be incentivised by special programmes and by offering attractive rates of interest on even the smallest minimum account balances.

3. **Borrower**: most households need to borrow periodically if only to even out cash flow or to acquire assets. Also, effective borrowing skill builds up a credit rating and helps households gain experience for large commitments such as home purchase. Unlike conventional lenders that rely on credit histories and electronic credit scoring, credit unions specialise in 'character-based lending' with a focus on savings histories. Credit unions also are unique in providing micro-loans that enable households to borrow sensibly and affordably at low rates of interest.

4. **Owner**: evidence shows that asset ownership is important in helping move households out of poverty. CDCU specialisation in loans for enterprise development and for low-income home ownership and repairs contributes uniquely where other lenders are unprepared to make credit available at low costs.

Bethex Federal Credit Union in the Bronx provides a good example, as does LESPFCU, of how this four-stage approach to reducing financial services exclusion can work.

Bethex Federal Credit Union – Profile Two

Bethex FCU was founded as a faith-based credit union in the South Bronx under the sponsorship of the Bethany Lutheran Church. The credit union grew slowly over its first twenty years and a setback occurred in the late 1970s when its successful work with black single parents on welfare led to any uneasy relationship with its church sponsor. In the end, the credit union as a result had to move from its church base and struggled for over ten years to find a permanent home. In 1994, a housing association, Mount Hope Housing Company gave them an office at a pepper corn rent of $1 per year in the basement of a multi-story housing block. The housing association sponsorship introduced many new tenant members to the services of the credit union and the growth path in the past seven years has been continuous with membership rising from 700 in 1994 to 9,000 at the end of 2001. Bethex assets also have grown over this period from $700K to $8 million. Through its active work with local schools, Bethex has additionally built up 1800 children's saver accounts.

Bethex and LESPFCU transactor services include the following:

- Personal checking accounts;
- Money orders (for one-off payments) and money transmission internationally;
- Electronic Welfare Benefit and Pension Transfer into credit union accounts;
- Cash payment service monthly for energy and telephone bills.

Bethex also provides a financial budgeting advisory service through a partnership with a credit counselling agency, Balance. This service is free to members for initial sessions but debt rescheduling work beyond initial advice and guidance has to be paid for. Until recently Bethex employed a money advisor but the grant for this ran out and the full service to members had to be discontinued. The money advisor continues to assist Bethex members on a freelance basis at a reasonable cost.

The Electronic Benefit Transfer (EBT) experience in New York has not been problem free. New England states (and New York State) concluded a major contract with Citibank to handle state welfare payments exclusively and to issue the EBT card to welfare recipients. Citibank ATMs were not accessible to low-income households in many New York communities and thus lack of local access to cash led to bad publicity for the bank. To overcome this, Citibank installed their ATMs with some CDCUs and made similar arrangements with cheque cashers.

Electronic Fund Transfer (EFT) programmes to disseminate Federal pension and disability payments has been also problematic. CDCUs in New York only receive $12 as a one-off fee for opening an account for a low-income household to accept EFT transfers from the Federal Government. However the Federal programme for EFT distribution carries account restrictions and overhead requirements that are burdensome for CDCUs and thus limits the participation of smaller CDCUs in such a financial intermediary role. This is a pity as they are so well placed geographically to provide effective delivery channels while at the same time reducing exclusion through widening access to other financial services.

Cash payment services have been found to be problematic as energy and telephone companies bill monthly and members using the service make payments during the first week of every month and pack the counter services with long queues. Consequently personal chequing accounts are preferred but this requires work by credit union staff and budget advisors to help low-income households understand how to use the accounts without going overdrawn and bouncing cheques.

Among its 3500 members, LESPCU has 400 (11.5 per cent) on the cash payment service and 700 (20 per cent) on the chequing account. For those with only one bill to pay, money orders are cheaper than the chequing account and credit union staff advise members on the most cost effective system. For the cash payment service, commission income to the credit unions from Consolidated Edison (for electricity) is 60 cents a transaction. Cash withdrawal can be obtained at the branch offices and through a steadily growing range of ATM machines being developed by Bethex and LESPFCU.

Bethex has recently merged with four smaller low-income credit unions in the Bronx. More recently through one of these mergers and a community regeneration partnership with the Hunts Point Economic Development Corporation, it has expanded its branch network to four offices.

CDCUs nationally have been generally reluctant to provide cheque-cashing services as low- income households are not thereby incentivised to open normal bank accounts. Additionally such services, even where linked to a credit union account, usually have rapid transactions of funds in and out are enormously expensive to service. Bethex has concluded that competing with commercial cheque cashers is therefore not feasible, but as cheque cashers do not provide savings facilities or make loans, concluded that a partnership with them could work.

It has therefore launched an experimental scheme with two cheque cashers in the Bronx who have agreed to accept savings payments into Bethex accounts, to withdraw funds, and to cash a Bethex cheque for free (with Bethex paying the fee). LESPFCU manager, Pablo DeFilippi commented that perhaps a similar partnership might be possible under the proposed British bill payment pilot with neighbourhood Post Offices in Britain.

Bethex, LESPCU and Union Settlement Federal Credit Union have looked into setting up bill payment accounts on a standing order basis, but the bank automated clearing system for these transmissions charges a minimum fee of $350 per month, which requires a large volume of users to make it financially sustainable. Debt repayment services like MABS operate in New York but only for middle-income households with larger debt problems where significant credit repayment commission can be obtained by the credit counselling agencies. Such services for the poor with lower level debt problems are either not accessible or too expensive.

Chequing account services that Bethex operates are $5 per month for unlimited cheques, but members need to have a minimum savings level of $100. LESPCU requires a minimum saving level of $250 with 10 cheques free per month. The minimum saving level is set to assist households from bouncing cheques which cost $20 to process. LESPCU members with savings of over $750 either in their saving or their chequing account (i.e. the combined total of both accounts) pay no chequing account monthly fee.

The saver stage is thus an important critical one for CDCU financial health and member well- being as accumulated saving balances assist the member in three main ways: (a) to avoid transmission charges for payment services; (b) to qualify for loans; and (c) to build up assets.

Some American CDCUs have also developed emergency loan facilities with similar features to the Irish MABS loan guarantee. The product has been designed to help overcome the ‘predatory’ practices of pay-day loan providers that for a $200 emergency loan over only six weeks, typically charge a total repayment of $320.

ASI Federal Credit Union in New Orleans has developed a six-week loan service for a $200 loan repayable at only $222.15 – or one fifth the cost of predatory lenders. It has, in the past two years, advanced 2,390 such loans for an average sum of $300 each. Out of $700,000 in loan advances to date, only 27 loans have been written off for a net loss of some $4,000 (or 0.56 per cent of the funds advanced). This loan service includes one-to-one financial counselling and efforts to help new members of the credit union to break away from pay-day lenders.

The Faith Community Credit Union in Cleveland, Ohio has also successfully developed a similar emergency loan facility. To qualify though, borrowers must have been a credit union member with a wages or salary direct deposit made electronically for the previous six months at least. With support from the Ford Foundation, NFCDCU launched PRIDE (Predatory Relief and Intervention Deposits) in February 2002. This national finance mechanism has been introduced to provide a partial loan guarantee to encourage more CDCUs across the USA to provide short term loan facilities to counter predatory lending practices in the ways the ASI Federal CU and Faith Community CU have shown feasible.

New York City Financial Network Action Consortium

Partnerships are a critical aspect in the success of the most effective CDCUs interviewed. As a result of financial literacy services developed to promote savings via an American programme to promote asset development for low and moderate income households (i.e. the IDA programme – cf. Appendix 2), Alternatives FCU and Santa Cruz Community Credit Unions have done two things: (a) developed an educational non-profit affiliate company (with the equivalent of UK charitable status) to raise the matched funds and grant aid to develop the training courses in personal finance and (b) established referral networks and training partnerships with enterprise agencies, further education colleges, and home improvement agencies.

In New York City the most effective partnerships appear to be with social housing providers. This clearly underpinned the rapid expansion of Bethex FCU in the past seven years to over 9,000 members, but also is working to bring about the development of LESPFCU’s second branch expansion, through a partnership with the People’s Mutual Housing Association who are providing shop front premises to LESPFCU , at a very low rent, for the next twenty years. In a different but parallel way, Union Settlement FCU in Harlem is refurbishing and expanding its branch offices and opening a sub-branch with the strategic involvement and financial assistance of the Federal

Government and local authority under Empowerment Zone money (cf. similar to Single Regeneration Budget or New Deal for Communities funding in England and Wales).

However, the most interesting partnership to emerge among CDCUs nationally is the New York City Financial Network Action Consortium (NYC*f*NAC). In the ten years to 1999, almost one in four bank branches (22.3 per cent) has been closed in New York City and with more bank mergers on the cards, this trend will continue as cheque cashing firms and down market lenders proliferate

In the past three to four years, pay-day loan outlets have increased from a low base to almost 10,000. Although pay-day loan merchants do not yet operate in New York City, the unique selling point of these high-cost moneylenders is long opening hours, widespread locations and quick access to cash. With one in four New Yorkers (2 million people) unbanked citywide, unless CDCUs can also think big, the goal of reducing financial services exclusion significantly will never be achieved.

To help find collaborative ways to scale up their activities and local impact substantially, Bethex FCU, LESPFCU, Union Settlement FCU and Homesteaders Credit Union formed NYC*f*NAC in May 2000 with six key objectives. These were to:

- Create economies of scale thereby saving costs;
- Develop new opportunities to generate more revenue;
- Undertake research and development related to new products and services;
- Co-ordinate marketing activity;
- Define and move toward a unified vision of affordable financial services;
- Finance their fixed asset needs so they can reach more of the target client group.

In its first year of operation, NYC*f*NAC has already delivered through the partnership consortium, the following results:

1. **Branch Development and Improvement**: branch construction and renovation projects have been initiated with a projected cost of $1.5 million. Grants worth $400,000 were secured from diverse programmes to open a fifth Bethex Branch in 2001. Design work was completed on the LESPFCU second branch which will open within twelve months. Over $600,000 has been raised for the Union Settlement refurbishment project to double the size of its current inaccessible office branch and to establish with the investment a store front branch.

2. **ATM Network Development**: special discounts on good quality ATM machines (nearly new) have been negotiated at a savings of $15,000 per machine (i.e. @$20,000 rather than $35,000 each) and a strategy drawn up for locating these in each of the four CDCU areas of New York at their new branches and in major places of employment.

3. **Partnership with Community Based Organisations (CBOs)**: initiatives are now in operation to work with organisations specialising in financial literacy, money management training and debt advice whereby CBO trainers and advisor experts in these fields deliver surgeries at credit union branches linked to specialist accounts such as the IDA for home purchase or repair, business start up or education.

4. **Integrated Financial Services**: a full time Director of Product Development and Marketing is now working for the four credit unions. Additionally work has commenced on examining the achievable economies of scale between the four CDCUs and other New York CDCUs that will be invited to join NYC*f*NAC at a later stage, once the integrated model is tested. Areas under development include: insurance services, central back office facilities, common data processing, joint marketing, common branding, inter-lending facilities, shared recruitment and

training programmes and improvements to the Electronic Benefit Transfer (EBT) system for welfare and pension payments.

In meetings with NYC*f*NAC members the vision and commitment of the CDCUs in New York were impressive and it is therefore likely that, over the next ten years, they will begin to make significant progress by working together in this creative consortium.

2.4 Lessons from the Ireland and USA Fieldwork Findings

A significant difference between the Irish and American practices of tackling financial services exclusion was evident in the different drivers in each country. In Ireland the development was being pushed by the MABS, the money and debt advice network, with the full backing of the Irish Government. In the USA, Government grant support for debt and money advice is not available through specific programmes. Despite this, the existence of a dedicated network of credit unions committed to develop services for the financially excluded was similarly impressive to that of the MABS network. However, as a consequence, the money advice linkages are weak in the USA and strong in Ireland, while the innovation in credit union product development for low-income households is clearly evident in the USA while, on the other hand, clearly weak in Ireland.

In Britain, from this evidence, there would appear to be a strategic opportunity to better develop money advice services (particularly to meet the needs of low-income households) with a Government commitment along the lines of that made by the Irish Department of Social Welfare decade ago to reduce financial exclusion through integrating money advice access and credit union access. A British pilot could achieve similar benefits in reducing debt problems and widening access to credit union services by low-income households. In considering how to go forward, a British pilot should draw on the most important lessons from both the Irish and American efforts to date.

The chief lessons to be drawn from the fieldwork in both countries are as follows:

(i) Pilots need to be well resourced and should include a one year set up period to establish the infrastructure, develop internal policies and procedures and test the systems followed up by a minimum two year period thereafter to demonstrate the benefits achieveable.

(ii) A number of sites should be selected for the pilots and independent evaluation carried out.

(iii) The pilots should build on existing good practice (e.g. the Lough Scheme) and be carefully set up in the areas selected.

(iv) Financial education, budgeting assistance, and debt advice needs to be built into the pilots but should be separately funded via grant assistance.

(v) Bill payment services are likely to be extremely popular but need careful logistical thinking since, if the site locations are small or under-resourced (e.g. insufficient cashiers), then long queues will result – thus multiple paying in points should be planned as the service expands and here the partnership model should assist.

(vi) Building a credit facility (including a loan guarantee mechanism for new members) for emergency needs and pressured times of the year (e.g. start of the school year and Christmas) with a low limit (e.g. £250) is important to avoid the lure of the moneylender’s offers.

(vii) Electronic welfare payments can be handled by credit unions with the management capacity but this is only feasible if facilities to provide access to cash are increased (e.g. ATM networks, bank partnerships, RSLs and other channels) and the UK Treasury and Department of Social Security enable credit unions to perform this role and avoid the mistakes here made by the Federal and State Governments in the USA.

(viii) Social housing organisations are ideal partners to assist community credit unions to grow and to help provide, through their construction expertise, the further development of branch facilities.

(ix) Developing work with schools to provide access to junior credit union accounts enables financial literacy and money management experience to be acquired at a young age.

(x) The current interest by the UK Treasury in an American style IDA programme, if implemented in the next few years, can benefit credit union development and potentially resource aspects of the budgeting advice programme for a bill payment service.

(xi) Bill payment services require secure and safe facilities and site construction and refurbishment can be very expensive. Funding for this would ideally be secured through regeneration programmes.

(xii) Any British bill payment pilot should plan ahead for the impending electronic benefit transfer arrangements and seek to negotiate credit union and community finance institution involvement as well as equitable financial remuneration.

(xiii) Partnerships to widen paying-in points are vital in considering a British pilot – these could be with social housing providers, local post offices, and possibly other financial institutions.

(xiv) Economies of scale require that pilot credit union and community finance organisations need to think strategically and to plan integrated delivery of services and shared back office arrangement from the outset.

3. Review of Bill and Debt Repayment Systems: Services for Cash Payers

There is a fast growing range of commercial services for cash payers and low-income households. These include diverse ‘pay as you go’ arrangements operated under the Codes of Practice by major utilities (i.e. energy, water and telecoms companies) to help households budget; commercial payment handling services; the long-established bill payment services of the Post Office Ltd; and a fast expanding range of specialist debt repayment services ranging from commercial to non-profit bodies.

Additionally there are specialist banks like Secure Trust Bank that have operated commercial budget payment products for years for cash payers. In the past two years, the basic bank accounts introduced by the High Street banks and building societies have added other products to choose from. Credit unions operate a small but growing number of bill payment services as well. The design of a successful Factor Four service must offer unique features to add value to the wide range of existing services available.

3.1 Bill Payment and Budgeting Services: Major Players

The market for bill payment and similar budget facilities needs to be seen as supplementary to the high incidence of energy prepayment meter facilities for cash paying households. At present 16 percent of electricity customers (3.5 million) and 9 per cent of gas customers (1.8 million) pay for their fuel bills by this method. In the past ten years the use of prepayment meters has increased by 291 per cent (from 1.2 million customers in 1991) for electricity and by 257 per cent (from 700,000) for gas.

Some 51 per cent of one-parent families and 52 per cent of households without a bank or building society account use an electricity prepayment meter (Electricity Association, June 2001). Figures show that 65 per cent of gas prepayment customers are in debt for fuel (Ofgem Statistics, 2001). Although this is far lower at 12 per cent for electricity consumers using prepayment, research has shown that for most cash payers, prepayment meters are valued for the budgeting facility and the prevention of debt problems even though many households realise it is a more expensive way of paying for fuel.

Fuel companies have a variety of agreements with payment agents to collect bill payments for cash and prepayment. Transaction costs, which are met by the companies, vary according both to volume of business and transaction size. It is understood that these costs can range from as low as 15p, to more than 30p, per transaction depending on circumstances.

In respect to cash payers for fuel and other essential bills, the following services predominate:-

Post Office Counters Ltd. and Universal Banking Services

The Post Office operates a network of some 18,400 branches (8,500 urban and 9900 rural) and services 28 million customers each week (Post Office, 2002). Only 600 or so of its outlets are Crown Post Offices, the remainder being franchised operations run as private businesses. The network is well spread and 94 per cent of the population live within a mile of a Post Office.

The bill payment services operated nationally by Post Office Counters Ltd. handles some 500 million transactions annually and are used by some 4.5 million customers. Income earned for operating bill payment services amounts to over £120 million a year and the Post Office network handles 20 per cent of the money transmission market and is the biggest UK handler of cash - £140 billion annually.

The Post Office bill payment service is funded primarily by around 400 corporate customers through commission charges. Only about 7 per cent of bills require a counter charge for the household customer to pay (HM Treasury, 1999) which is currently £1.10 per transaction. For most bill payments that are free to the customer, the transaction costs payable to Post Office Counters Ltd. is borne by energy companies, other utilities and local authorities. The corporate counter charge ranges widely as each contract is separately negotiated and transaction costs may be lower depending on the volume of business managed.

The Government pays the Post Office Counters Ltd. over £400 million yearly to handle pension and benefit payments. With the move in 2003 to Automated Credit Transfer (ACT) from the Benefits Agency to Basic (now known as Introductory) Bank Accounts, this income to the Post Office network will end. In the light of this major development, Universal Banking Services has been developed by Government in partnership with the Post Office Ltd. and the banks to:

- Widen access to a basic or 'introductory' bank account for low-income households using a debit card but without any overdraft facility;
- Facilitate ACT payments to low and moderate income users of the Post Office;
- Provide financial services to low and moderate income households intimidated by banks and mainstream financial institutions;
- Preserve the Post Office network.

The original idea has been dropped for a 'Universal Bank' as a new corporate entity similar to the privatised Girobank (now part of the Alliance & Leicester Bank) or a European style Postal Bank. Universal Banking Services will operate as a partnership network essentially between the banks and the Post Office Ltd. in order to deliver basic banking services to heavy users of cash.

It is estimated that the Universal Banking Service will only raise some £150 million - £200 million per year for the Post Office network for handling cash payments for Introductory Bank Account holders. Essentially the Post Office will act as a 'common bank counter' to cash payers for the High Street Banks and building societies.

At present 8,000 Post Offices (43 per cent) lose money and 400 sub-Post Offices are closing every year, with the highest number closing in rural areas. To reverse this trend in rural areas, the Government's Performance and Innovation Unit (PIU) in the Cabinet Office has acknowledged and recommended the need for ongoing public subsidies to retain the rural network.

By contrast, in many urban areas there is an excess of sub-Post Offices in poor quality accommodation. Thus, in urban areas, a considerable rationalisation and shrinking of the extensive Postal Office network is unavoidable in the decade ahead; and a major merger of sub-Post Offices in these areas is planned by the National Association of Sub-Postmasters in order to create viable businesses that can survive in bigger, brighter and more flexible premises. To achieve a sustainable business network, the Government has agreed to compensate sub-Postmasters who agree mergers and joint ventures to create modern facilities and more viable high street branches.

PayPoint and PayZone

Supported by several major public utilities and service companies, PayPoint was launched in 1997 to provide a service for the collection of bill payment in varying amounts, and to facilitate high frequency energy prepayment. Designed primarily for cash payers (although cheques are accepted for certain utilities), PayPoint's 8500 outlets are conveniently located in late opening supermarkets, petrol stations, newsagents and convenience stores.

PayPoint outlets are selected to serve the needs of the estimated 6 million households that pay some or all of their bills in cash on a regular basis, including those living in the 800 most deprived wards in the country. In urban areas, 95 per cent have a PayPoint outlet within 1 mile and 5 miles in the case of rural areas. PayPoint currently handles bill and prepayment meter transactions for over 2 million customers and collects over £1 billion annually on behalf of over 200 utility and service companies.

For the energy companies, PayPoint currently handles some 75 million transactions a year – the majority for electricity customers. Transaction costs vary from company to company according to volume and include commission paid to retailers. However, there is no cost to the customer at the point of sale.

PayZone is a rival business to PayPoint and has grown rapidly in recent years. It deals with over 16 million prepayment transactions annually. Both Payzone and Paypoint charges are understood to be lower than for the Post Office.

3.2 Introductory Bank Accounts

Following recommendations in the Office of Fair Trading (1999) report on financial exclusion and in the same year in the Policy Action Team 14 Report of the Treasury, *Access to Financial Services,* all major banks and building societies have introduced basic bank accounts, now being promoted by the Financial Services Authority as 'Introductory Bank Accounts'. In the USA, and elsewhere, such restricted current accounts are known as 'lifeline bank accounts' and the features include:

- Deposit and withdrawal features;
- Debit card, pin number and ATM services;
- Standing order and direct debit facilities for bill payment;
- No overdraft, credit facilities or cheque book.

The strategic importance of these accounts is that they represent the diverse commercial interface with the Universal Banking Services planned for current cash payers. In future the vast majority of such households will receive benefit payments through a link up with either an existing account they may have, or a new account which may be a basic bank account they choose and Universal Banking withdrawal facilities. The latter services will be introduced in late 2002 when benefits and pension distribution will be electronically managed by ACT technology. This new system will allow cash withdrawals through the ATM infrastructure of some 30,000 machines.

Those households unable or unwilling to open an Introductory Bank Account can obtain a Post Office Card Account (POCA) which will offer a plastic card and allow the accumulation of funds (i.e. like the Electronic Benefit Transfer (EBT) card in the USA).

Thus there is a commercial incentive for banks and building societies here – but only if other added value services can be provided beyond money transmission, such as household insurance, stakeholder pensions, life insurance and individual savings accounts. The take-up rate of Introductory Bank Accounts is going better than expected with both Barclays and HSBC signing up between 4,000 and 5,000 new customers a month over the past twelve months. HSBC is profiling these accounts with a view to being able to offer some of these customers credit facilities in future as well. The profiling data which tracks cash flow and payment patterns can be used to adapt credit scoring analytic techniques in order to make sound lending decisions.

Some banks like HBOS (Halifax and Bank of Scotland) and Woolwich Bank (a subsidiary of Barclays Bank) have developed and are promoting specialist bill payment accounts known as 'jam jar' accounts. Woolwich is promoting these to registered social landlords.

A few utility companies are now entering into joint ventures to offer bill payment accounts that resemble, and are linked to, an optional Introductory Bank Account. The first of these household bill payment accounts launched in April 2001 is the Jigsaw Account – a partnership between British Gas and the HBOS. The features of Jigsaw include service facilities not associated with Introductory Bank Accounts:

- Paypoint network for cash payments into the account to settle household bills agreed
- Free 'benefits health check'.

The account does not include an ATM card and costs the customer £12 per year to operate. Additionally there are charges for direct debits when there are 'insufficient funds' in the account to pay bills. British Gas customers though are offered the choice of either this account or an Introductory Bank Account with a debit card for cash machines and a limited credit facility to go slightly overdrawn within an HBOS determined 'credit buffer zone'.

3.3 Debt Management and Debt Repayment Services – Commercial and Free

In the past five years, the sheer increasing volume of households with multiple debt problems has overwhelmed the traditional money advice agencies providing free money and debt advice services such as the Citizen Advice Bureaux network and members of the Federation of Information and Advice Centres (FIAC). Consequently there has been a growth of private sector debt advisors and commercial debt management companies that advertise widely in the popular press.

The private sector debt advisors target a somewhat better-off clientele with disposable surplus income and do not specialize, as free money advice agencies have done, in the provision of comprehensive money advice (not mere debt advice) through income maximisation services, benefit checks and tax related assessments (e.g. Working Families Tax Credit). The charges of the private sector debt advisors are fee-based along the lines of solicitors and accountants and therefore are beyond the means of financially excluded households and cash payers generally with rates ranging from £300 to £1500 or more (FIAC, 1999).

While private debt advice services tend to be local and small businesses, debt management companies are typically large and national. The biggest include Baines and Ernst, Gregory Pennington, Debt Call and Debt Solutions. They provide a limited amount of debt advice but principally assess the scope to help over-indebted households with repayment plans based on rescheduled monthly payments to the customer's sundry unsecured creditors. Baines and Ernst, the largest debt management company employs over a thousand staff and is reportedly signing up over 5,000 new customers a month.

However, as with the private debt advice companies, the debt management companies are targeting homeowners with disposable surplus income. Charges of debt management companies vary in terms of up-front fees, but most income is generated by fees for handling the payments to creditors, which typically charge 15 percent plus VAT deducted from clients' monthly payments.

In the free money advice sector, there are two main bodies that provide similar debt repayment services completely free of charge to users. The oldest of these is the Consumer Credit Counselling Service (CCCS) which, unlike private debt advisors, provides money and debt advice and also operates a free repayment service although it requests that creditors contribute a 'fair share' payment of 15 percent of monies repaid.

A more recent free service established in July 1999, which is supported by the Money Advice Trust and the main free money advice organizations, is PayLink Trust. The Board of PayLink includes representatives from the Money Advice Trust, Barclays, HSBC, Money Advice Association, Birmingham Settlement, Money Advice Scotland, and the National Association of Citizens Advice Bureaux.

CCCS is a free service delivering both money and debt advice through its own staff and providing a debt repayment service to creditors. CCCS statistics indicate that 95 per cent of its debt repayment plans are still working six months after they have been negotiated with creditors. CCCS claims that this performance is so high because of the integrated money advice service they deliver - unlike the commercial debt management companies where, typically, after six months one third of debt management plans have already broken down (Inman, 2001).

PayLink is a debt repayment service only, which operates in partnership with free money advisors to assist indebted clients able to repay their debts through a flexible payment facility. PayLink as a non-profit body seeks 9 per cent for debt management work requested as voluntary contributions from creditors. PayLink has contracted Federated Credit as its management agent to provide the payment distribution system through a Federated Credit subsidiary, called PayPlan. The subcontract agreement allows for PayPlan to retain 3 per cent of the 9 percent voluntary contribution and the remainder is kept by PayLink revenue for the work of money advisors.

PayLink and PayPlan receives steadily increasing voluntary contributions from creditors and the average recovered is 4 per cent on debt repayment plans, but this is expected to increase to 6 per cent over the next year as more creditors consent to contribute.

A major barrier to the development of PayLink is the limited number of local Citizen Advice Bureaux or FIAC agencies with IT facilities. PayPlan technical systems are state of the art and Federated Credit is the largest UK provider of insolvency practitioner services.

3.4 Credit Union Bill Payment and Energy Efficiency Services

The NEA and NEF scoping study 'Ending Fuel Poverty – a Factor Four Approach' (2000), indicated a good number of disparate, small scale credit union initiatives to assist low-income households with energy bill or home disrepair problems. These included:

- The pioneering work over many years at Birmingham Settlement which operated a Fuelsavers service to give energy and money advice in the home, promoted credit union services, promoted the take up of HEES and other energy efficiency programmes and employed multi-lingual advisors;
- The Redditch Credit Union project which, using HECA funding, has provided low-income credit union loans for home improvements along with grants to improve energy efficiency for low-income homeowners.

Nationally a number of credit unions currently offer, or have offered, bill payment services to their members. These credit unions include: Leeds City Credit Union, Alliance Credit Union on Merseyside, Nelson Community Credit Union in Lancashire and Ladywood Credit Union in Birmingham. Some other large employee credit unions, like the Mid West Police Credit Union have offered debt repayment services as well.

Leeds City Credit Union – Bill Payment and Energy Efficiency Loans

Founded in August 1987 as Leeds City Council Employees Credit Union, in March 2001 it merged with five local community credit unions to become the largest citywide credit union nationally with a 'live or work' common bond. Now known only as Leeds City Credit Union, it has 9500 members and an asset base of £8.5 million and a financial turnover of £26 million annually.

Leeds City Credit Union has operated a bill payment service for the past eight years to help members budget for household bills such as gas, electricity, water, rent, mortgage, Council Tax and household insurance. The service was kept small until February 1999 when the credit union switched to Curtains software with a bespoke bill payment service designed to meet the credit union's own requirements. Since then, with almost no promotion at all, the bill payment service has grown to a customer base of 500 and currently manages a turnover annually of over £600K a year with only one administrator. For those credit union members with financial problems, the service also provides a debt management plan service to repay creditors. The credit union is in the same building as the Leeds Citizens Advice Bureau and the credit union manager, Sue Davenport, would like to collaborate with the CAB in future to provide such bill payment and debt repayment services to money advice clients.

Leeds City Credit Union has also developed a successful energy efficiency loans service in partnership with Leeds City Council and the Energy Saving Trust. About 800 such loans have been advanced to date over the past three years, with an average amount of £800 and a maximum loan of £1000. The credit union estimates that about 25 percent of such loans have been taken up by low-income households, including a good number of loans for energy efficient appliances as well as for home improvements. These loans have been facilitated by a loan guarantee arrangement funded by an Energy Saving Trust investment of £140K. The terms are conventional credit union terms but there is no pre-savings requirement to qualify for the credit

Incentives to take up the loans include two low energy light bulbs and, to encourage prompt repayment, a 25 percent interest rebate is made upon final payment of the loan. Sue Davenport stresses that the key to such lending is 'to keep it simple'. In contrast to the popularity of this successful lending scheme, Leeds City Credit Union has had teething problems in its more recent partnership with the Department for Education and Skills on finance for vocational courses. The scheme called the 'Learning Loan' has struggled to get off the ground. With hindsight, Davenport thinks that the design of the scheme wrongly applied too many restrictions on the loan. Consequently after twelve months of promotion, the credit union has only been able to offer one loan and this in the end itself was rejected by the DfES because it failed to meet the criteria.

Wales Co-operative Centre – Credit Union Energy Savings Programme

The Wales Co-operative Centre in Cardiff is funded to provide a credit union development role throughout Wales. There are currently about 50 credit unions in Wales and these are quite evenly spread across the country. Through partnership with SWALEC, the Wales Co-operative Centre, working with eight community-based credit unions in South Wales, successfully promoted a specially priced package of an energy efficient kettle and two low energy light bulbs to credit union members. As a result, over 400 new credit unions members were recruited through this special offer in 2000. The scheme has now been expanded to all of Wales and, in partnership with Manweb, some 5000 kettles and bulb packages have been sold since November 1999.

The next phase of co-operation with fuel suppliers to target low-income households involves the opportunity to purchase low energy fridges and fridge freezers for £25 and £50 respectively, and beyond that, the credit union will promote HEES grants linked to the opportunity for home improvement loans. The Energy Saving Trust Energy Efficiency Advice Centres will promote this work.

Additionally, work on a pilot in North Wales is underway, so that Credit Union members with prepayment meters can shift to a credit union direct debit scheme. A loan guarantee fund has been set up so that scheme members can be confident that direct debits will not be rejected, as credit union funds can be loaned temporarily where there are insufficient funds in an account. The five credit unions involved in the pilot will operate Curtains bill payment software and Manweb will pay £20 for each credit union member moving from prepayment to the direct debit arrangement.

Newcastle upon Tyne – Fuelsavers Credit Union Pilot

This project, which is sponsored by both NEA and the ACE Credit Union Services (the second largest credit union trade association in England) and funded by Northern Electric & Gas (NEG), is directly relevant to the Factor Four research as several of the elements will be replicated.These elements are:

- Credit Union Fuelsavers service to pay gas and electricity through a budget scheme and bill payment account;
- Assistance with rescheduling fuel debts for credit union members within the budget scheme;
- Promotion and help with take up of energy efficiency grants;
- Provision of energy advice by trained credit union staff and volunteers.

The pilot was launched in April 2001 and involves two community credit unions, Shiremoor and Newbiggin Hall. To date credit union staff and volunteers have been trained, administrative systems set up between the two credit unions and NEG and the first Fuelsavers saving accounts set up for 11 credit union members. Logistical issues have been time consuming but the system is now operating, and credit union members who pay regularly into their special Fuelsavers Accounts benefit from the direct debit discount because NEG debits the credit union bank account to collect the payments.

Where appropriate, prepayment meters have been replaced with credit meters and debts have been rescheduled to repay over time within the budget scheme. This changeover from prepayment meters to credit meters has proven time consuming and lack of regular bills and statements has made the calculation of regular payments for such customers difficult.

On the grant side, Warm Front (formerly HEES grants) and EESOP insulation grants, Fridgesavers and a new scheme offering an efficient jug kettle and two compact fluorescent light bulbs, have worked well. Each credit union has obtained 300 kettle offer vouchers to promote the credit union and 25 new members have been attracted to join already. Over the first six months of the pilot, the target set is to sign up between 15-20 Fuelsavers Account members from each of the two credit unions.

Part II: Market Feasibility and Low-Income Consumer Demand

4. Summary of British Market Feasibility Study on Factor Four Services

To test consumer demand for a potential Factor Four service, the Personal Finance Research Centre at the University of Bristol carried out a market feasibility study to feed into the NEF and NEA work on the business plan. This study included a preliminary qualitative exercise involving Focus Groups in Birmingham, Liverpool and Portsmouth followed by a larger quantitative survey of cash payers across Britain. Before discussing the findings of this survey and analysing the market segmentation information derived, a short summary of previous relevant findings by the Personal Finance Research Centre is worth noting. Additional work of PFRC on features of an ideal bill payment account for cash payers is highlighted under Section 4.2.

4.1 Recent Research on Cash Payers and Bill Payment Problems – Summary

A major institutional issue identified by Elaine Kempson at the Policy Studies Institute in the early 1990s, and more recently at the Personal Finance Research Centre, is the way that budgeting problems are due to an assumption by creditors that most people are salaried and thus paid monthly. For those on modest incomes who are accustomed to budget weekly, the predominant institutional arrangements for many bills is either not geared to help them or is more expensive to operate.

For example, Herbert and Kempson (PSI, 1995) have shown that the failure of water suppliers to promote weekly or fortnightly easy payment schemes in the mid 1990s prevented budgeting from becoming an option for many low-income households. Their study also found that 40 per cent of those without a current account were pensioners brought up to manage their affairs with cash, while a further 40 per cent were non-pensioner households on a very low income (i.e. under £150 per week), predominantly lone parents and unemployed households.

In a further study (PSI, 1997), which contradicts the assumption that low-income households are inefficient in money management, Whyley, Kempson and Herbert show that budgeting strategies across all households in the UK can be categorised into five groups:

- ‘Moral planners’: mostly pensioners with stable income and expenditure, with a fear of debt and a methodical and tried and tested way of paying bills weekly or in one go when they fall due; such households are as often poor as better off.

- ‘Pragmatic planners’: couples typically between 20 and 50 and without dependent children. Such households are the highest-earning category as a rule and have few credit commitments. They budget through their banking service on a direct debit basis.

- ‘Flexible planners’: families ranging between 20 and 50, but typically towards the younger end of this spectrum with small children and little financial management experience. Income levels for this group are average but usually there is only one earner. Whilst they do use banking services, they take on credit commitments and find these competing frequently with children’s demands. Reliance on revolving credit arrangements such as credit cards and overdrafts is essential for them to achieve flexible financial planning.

- ‘Muddlers’: this category falls into two sub-groups. The first includes those who were either ‘pragmatic’ or ‘flexible planners’ until recently, but have had a serious financial reverse (unemployment, divorce, sickness, etc) and their finances have become unmanageable. The second group has never had any financial planning system or any method for coping with money matters. This group includes people from all income groups but a number are young people with no financial experience or training.

- ‘Pay as you go – money managers’: this group is heavily represented by the unbanked 40 per cent of non-pensioner households on a low income. It encompasses lone parents, unemployed families, the sick and disabled. Many are former ‘muddlers’ and ‘flexible planners’ who may have had a bank current account when their income circumstances were better. As a group, they are exceptionally good at juggling money but need to budget with prepayment meters, savings stamps for the TV license and whatever other installment arrangements they can find. However money is so tight - typically because of historic debt problems - that budgets can be disrupted by the washing machine breaking down, clothing needs of the children, birthday presents and the frequent temptation of recourse to the moneylender to ease the strain.

The important finding of this study, though, is that there is enormous movement from one category to another and a tendency to learn through experience how to survive ‘hard knocks’ and credit over-indulgences. As a rule, therefore, most households become better financial managers with age and as children become independent.

However, the vulnerability of younger, low-income households with children or of the sick and disabled is evident. They are at risk of ongoing financial problems and of involvement with unscrupulous and high-cost credit providers. Additionally, unlike the ‘flexible planners’, they have no banking facility where they can borrow for short-term cash flow pressures and this makes the moneylender, pawnbroker, or loan shark such an apparently indispensable resource.

4.2 Design Features of an Ideal Payment Service for Low-Income Cash Payers

In a more recent report, Kempson and Whyley (1999) have looked in detail at the circumstances of those without bank accounts and found that bank accounts, designed for budgeting monthly income transfers efficiently against monthly direct debits, were unsuitable for most low-income households. For poorer people this monthly bill payment system is out of balance with their weekly or fortnightly income pattern. As a result, many low-income households do not see their current account as a useful tool, or have closed the account because it has proven too costly to operate (e.g. when cheques are not honoured or direct debit charges incurred as a result of insufficient funds).

In fact, what the research shows low-income households actually want from the ‘ideal financial services provider’ include:

(i) Security, professionalism and reliability;

(ii) Locally available services with ‘someone to speak to’;

(iii) Products that are easy to understand and without penalty clauses;

(iv) Flexible arrangements which allow payments to be extended when necessary;

(v) Weekly and fortnightly payment facilities;

(vi) Value for money, but quality as well as low-cost services;

(vii) Responsible promotion of products that do not push unaffordable credit.

In terms of product design criteria, Kempson and Whyley highlight three key financial services product needs for the financially excluded:

- An account for wages or benefit payments to be received;

- A bill payment service which is weekly or fortnightly structured;

- A short term credit facility which would not be equivalent to an overdraft or revolving credit account, but more like a small ‘credit buffer zone’ to help ease cash flow at certain difficult times of the year and smooth the ‘peaks and troughs’.

The existing private sector services do not meet these needs and those such as Paypoint only help with one of the objectives. They do not assist as a budget account. However, as Kempson and Whyley point out, such an account, which is like a hybrid current account and savings account, was common twenty years ago before the introduction of direct debits. This old fashioned ‘Budget Account’ was phased out with the introduction in the 1980s of standing orders and direct debits. HBOS in Scotland continued to operate them for older customers and now with the JigSaw account, HBOS with British Gas is now reintroducing such accounts with Paypoint as a delivery channel.

Because of their local membership and local roots, community credit unions and community finance institutions, working in partnership with the banks, utilities and the Universal Banking Service, could develop a popular product through Factor Four approaches that adopted best practice from community-based credit unions in Ireland and the USA. Here, the market intelligence data from the PFRC study about Factor Four is critical to success.

4.3 Principal Findings from Focus Groups and the National Omnibus Survey

The Omnibus survey indicates that 67 per cent of British households use banking facilities for all their bills; 15 per cent pay all their bills in cash; and 17 per cent use a mixture of cash and banking facilities.

In relation to fuel bill payment, the Omnibus results indicated that 32 per cent of households paid at least one fuel bill in cash or through a prepayment meter and, allowing for the households without a gas supply, the proportions of gas and electricity consumers paying in cash did not differ. The breakdown of cash payment method in terms of relative popularity among fuel consumers was as follows:

Most Popular Fuel Payment Methods among Cash Payers

1. **Quarterly Cash Payment by Savings:** 14 per cent electricity consumers and 11 per cent gas consumers;
2. **Prepayment Meters**: 12 per cent for electricity consumers and 7 per cent for gas consumers;
3. **Budget Scheme Payments:** 6 per cent for gas consumers and 5 per cent for electricity consumers.

The Omnibus survey data corroborates other PFRC study findings linking cash payment predominantly with low-income households. It indicates that, among households paying for both gas and electricity in cash (including those without a gas supply paying for electricity in cash):

- 51 per cent were tenants of Registered Social Landlords;
- 48 per cent were headed by a single adult with an over-representation here of lone-parent households;
- Fuel cash payers were disproportionately non-pensioner households with no-one in paid employment.

Consistent with other PFRC and similar research, the Omnibus data reveals that the three main reasons for cash payment are: a) financial control; b) custom and habit; and c) convenience. Only small numbers (3 per cent) were dissatisfied with their cash payment method. Similarly, few households said they used cash because they felt they had no choice or because they lacked a bank account.

However, only a third of households who paid for gas or electricity in the Omnibus survey were aware that cash payment arrangements were more expensive by comparison with direct debit or standing order.

Among cash payers, the Omnibus findings reveal that while a majority (55 per cent) would not switch their preferred payment method even if they could save money and access cheaper fuel, almost one in two (45 per cent) said they would switch to economise on bills – 24 per cent definitely and 21 per cent possibly. Among those willing to change their method of payment and habit to make savings, the most likely households were:

- Headed by people under 50;
- One and two-parent families with dependent children;
- Households with only one earner;
- Homeowners with a mortgage and private tenants.

It should be also noted that households who combined cash payments and banking facilities to pay for their gas and electricity were more likely to switch than unbanked cash payers.

4.4 Cash Payer Attitudes to Factor Four Services – Specific Findings

The key findings of the Omnibus survey were that among cash-payer households:

- 11-12 per cent were attracted to a new bill payment service to pay for their electricity and gas with cash payments regularly - this was the second most popular of the Factor Four services;
- Energy advice was the most popular of the advice services, followed by information and advice about fuel switching and then by money advice;
- 17-26 per cent of households were attracted by at least one of the advice services on offer (especially energy advice) without switching to the bill payment service;
- 4-18 per cent of households were interested in the full Factor Four service.

Among the three advice-related factors, the following specific findings emerged from the Omnibus data:

- Energy Advice: over half of cash payers (53 per cent) were interested in accessing this service with 24 per cent very likely to take up such advice and 29 per cent fairly likely;
- Fuel Switching and Independent Advice: close to four in ten (38 per cent) of households were attracted to this service;
- Money Advice: just under four in ten (36 per cent) were attracted to this service.

In conclusion, a Factor Four service would attract a sizeable number of low-income households interested in one or more factors. The findings show that using a broad definition of households who would be either fairly likely or very likely to use the services on offer:

- 18 per cent would be attracted to use all four factors;
- 9 per cent to use three factors;
- 6 per cent to use two factors;
- 11 per cent to use only the bill payment service on its own.

4.5 Market Segmentation for Factor Four Targeting and Pre-conditions

Both the Omnibus data and the Focus Group findings reveal certain pre-conditions that must be met for a Factor Four bill payment service to succeed. So for a new bill payment service to stand any chance of attracting low-income customers it must:

1. Be free at the point of delivery;
2. Provide equivalent financial control and transactional transparency to the cash payment method currently used;
3. Be at least as convenient as current methods of payment for gas and electricity;
4. Enable users to pay more than one bill, and preferably most or all of their bills, through the service.

Because of the general satisfaction of most cash payers with their existing payment methods, PFRC estimate that the Factor Four services would need to offer savings in the region of £4-£5 per week to persuade high numbers of low-income households to switch to the bill payment service. This is clearly a considerable challenge for any pilot project.

With regard to market segmentation and targeting for a pilot of Factor Four services, the Omnibus data and the Focus Groups provide clear guidance. Households most likely to take up Factor Four services are:

- Credit Union and Community Finance Institution members – the Focus Groups highlight strong potential here provided the pre-conditions are met;
- Households headed by people under 40;
- Single-earner households;
- Families with children – especially lone parents;
- Households buying a home on a mortgage;
- Private tenants.

Those most unlikely to be attracted to Factor Four services are pensioner households, especially single pensioners.

Among unemployed households below pensionable age and among tenants of social landords, there was relatively low interest in Factor Four, but where there was interest, it was strongly positive across a high number of factors. It may be that households in debt would be the optimum target among the tenants of social landlords, although this cannot be definitely inferred from the data.

5. Factor Four Model – Attitudes of Potential Payee Customers and Partners

Fieldworkers tested attitudes to the Factor Four service amongst prospective partners and participants. In the attitudinal test, opinions were sought from a wide variety of organisations providing commercial or non-commercial services to low-income households operating in the cash payment economy. Those approached in qualitative interviews and through other forums included: energy and water utilities, registered social landlords, money advice organisations, energy efficiency installers, home improvement agencies, the Post Office, debt repayment services and the banks. The Factor Four service proposed had broad appeal as an integrated set of solutions and comments made and views are summarised for each group of consultees in turn.

5.1 Views of Energy and Water Utilities

The contact by the researchers with the energy and water utilties found that:

(i) There is no integrated approach like Factor Four among energy utilities to link debt reduction, money advice and energy advice with grant assistance.
(ii) Funding for energy efficiency improvements currently available is likely to continue for the foreseeable future and fees for referrals for a Factor Four service are a strong possibility.
(iii) Research data indicates that fewer than 5 per cent of disadvantaged households are currently able to obtain energy advice. Research also indicates that such households are unlikely to see energy advice from their energy suppliers as independent.
(iv) Energy advice to households should focus on the most effective use of energy to get value for money and on the provision of appropriate payment arrangements.
(v) Fuel company attitudes to working with credit unions are generally positive and they are likely to be receptive to proposals that offer mutual benefit.
(vi) Credit union members might benefit from affinity deals with fuel suppliers. However initially, it is more likely that inducements might be offered in the shape of a ‘signing on’ fee, payment holiday or similar incentive that would not alter general tariff arrangements.
(vii) Fuel companies could contact customers in debt to refer them to a Factor Four service.
(viii) Water companies would appear to be interested in working with credit unions on cost-effective debt collection schemes and appeared interested in making a contribution in financial or in-kind resources.
(ix) The Anglian Water Trust Fund and the Severn Trent Trust Fund both provide good models for the prevention and management of debt, with services including financial awards to households in serious hardship to reduce their debt burden.

5.2 Views of Registered Social Landlords

The researchers interviewed eight registered social landlords (RSLs) in Liverpool, Birmingham and Portsmouth. In different ways all of the RSLs were involved in programmes to make their accommodation more affordable and to reduce fuel poverty. The Factor Four approach was positively received by all the RSLs but there was concern that any pilot activity should not duplicate the services they already provide. The findings from these interviews revealed that:

(i) Five out of eight RSLs had made arrangements with nominated insurance companies to provide inexpensive household contents insurance packages to their tenants. These policies were typically less than £1 per week and included cover for losses from accidents, theft and vandalism.
(ii) All eight RSLs were acutely aware that the cost of energy services should be a factor in affordable housing. Three of the RSLs were interested in ‘Heat with Rent’ arrangements whereby, as with household insurance, a preferred supplier would be identified, group discounts negotiated and the RSL takes responsibility for delivering affordable warmth to the

tenants (i.e. as with sheltered housing schemes and hostels). Five RSLs preferred partnership with a third party but with the tenant remaining responsible for energy bill payment.

(iii) RSLs' interest in a successful Factor Four service is understandable given the potential economic benefits. One RSL reported property turnover due to voids as near 40 per cent annually. While not all these were associated with energy debt and disconnection, one RSL reported that a mere 7 voided properties unoccupied for an average period of 10.5 weeks, while the fuel supply is being restored, results in lost rental income of £50 per property per week, or £3675 for just seven properties.

(iv) The RSLs all had programmes underway to combat fuel poverty and many RSL housing management staff were already engaged in energy advice with one RSL having developed a service to guide tenants on fuel switching options to make the best savings on gas and electricity supplies.

(v) The integrated Factor Four approach appealed to all the RSLs but the challenge would be to design a partnership model that segmented which of the four services would be provided by RSL staff and which by a third party credit union or community finance institution.

In summary, all RSLs interviewed were willing to consider proposals about bill payment systems with advice features like Factor Four, but any service planned would need to complement and supplement their existing services to reduce fuel poverty

5.3 Views of the Post Office Ltd.

The discussions with the Strategic Alliance section of the Post Office Ltd. sought firstly to clarify the operational plans and the inter-relationship between the Introductory Bank Accounts of the banks and building societies and the Post Office as agent for these. Secondly, comments were sought on the concept of the Factor Four service and how such credit union or community finance service developments might potentially interconnect in future with the Universal Banking Services.

Network Banking

In recent years the Post Office has seen a steady decline of 2-3 per cent a year in the number of benefits paid in cash through its branch network as more new benefit recipients opt to have the payments directly into their bank accounts. Realising this trend was likely to increase, the Post Office carried out a review of its long-term commercial strategy. Market research indicates that customers like and trust the Post Office because they regard it as a non-intimidating 'community service'. Therefore plans were developed that would build on this and position the Post Office as a financial intermediary for the banks and other financial institutions.

In 1999, the Government announced that from 2003, the normal method of paying state benefits would be Automated Credit Transfer (ACT), directly into bank accounts. This would see the loss of approximately one third of Post Office Ltd's income and consequently threaten the viability of many Post Office branches. The wider availability of banking services at the Post Office, in line with the new, long-term strategy would ensure that customers could continue to access their benefits at Post Office branches, if they should wish to do so.

In order to operate fully automated and modern banking services at Post Office branches, the Post Office Ltd. is investing in new technology that will allow it to offer on line services. A network banking engine has been selected that will provided the real time, on line interface with banks, and IBM is doing the development of the system for Post Office Ltd.

Universal Banking Services

Universal Banking Services as a partnership process for the delivery of banking services to cash payers has two strands. The first strand is to offer Post Office access to the Introductory Bank account customers of banks and building societies and the second strand is the development of a new Post Office based account offering very limited functionality. The Post Office based account has been developed primarily for those who do not have an existing bank account and do not wish to open one. This account will offer payments in via ACT from Government and payments out via cash withdrawals at Post Office branches only. This account combined with the Post Office Network Banking ambitions will help to make Post Offices a community banking facility under this plan.

In May 2001, nine major banks and one building society signed a Memorandum of Understanding with Government agreeing to pay £180 million over five years toward the cost of running the new Post Office based account. They also agreed to make their Introductory Bank Accounts available at Post Offices for cash withdrawals. The financial institutions will pay Post Office Ltd. commission for handling Introductory Bank Account transactions on their behalf.

According to the Personal Finance Research Centre (PFRC) at the University of Bristol, it is unclear as to the breakdown in 2003 between those who will opt for the Introductory Bank Accounts and those who opt instead for the Post Office Card Account (POCA) – the working title for the new Post office account. Estimates for those who will decline an Introductory Bank Account and choose the POCA range from 2 to 7 million pension and benefit recipients.

Lessons here from the USA are worth observing. There, when the switch to EBT (the American equivalent of ACT systems) tried to force households on to bank accounts in the 1990s, there was major resistance. As a result, the US Treasury had to retreat and introduce an EBT plastic card for withdrawing cash only. In the end, the vast majority (i.e. 78 per cent) of unbanked households opted for this simple card instead of a 'lifeline bank account' – the American equivalent of the Introductory Bank Account.

According to PFRC, the Treasury is concerned about this prospect as, beyond the five year period of subsidy under the Memorandum of Understanding, the Department of Work and Pensions might have to considerably subsidise POCA operations once the annual £36 million transfer from the private sector ends. Thus incentives will be devised to encourage the take-up of conventional and Introductory Bank Accounts. The American experience provides a salutary lesson.

Post Offices and Credit Unions – Scope for Partnership

The Post Office Ltd. sees the POCA as a complementary service for the Introductory Bank Account but also sees considerable scope for credit union services to play a role, and are thus supportive of the development of the ABCUL Central Services Organisation initiative.The Post Office Ltd. is keen to forge positive relationships with credit unions and Kevin Gilliland, leading the development of Universal Banking Services, sees a good fit between both credit unions and Citizens Advice Bureaux (CABx) in the new ACT era from 2003.

In respect to the CABx service, the Post Offices have for years operated informally as disseminators of Government information. The CABx take a community service role as information providers but go beyond this to provide in-depth advice as well. Gilliland argues that this relationship should become more reciprocal in future with the Post Office dealing more actively with routine information enquiries and working with the CAB to handle advice in close partnership.

The Post Office Ltd. is currently piloting such a service in Leicester through small kiosks in sub-Post Offices promoting a Government programme called 'Your Guide' to local services. The kiosk system is internet-based and quick access information covers a range of matter from 'local jobs' to 'benefit entitlement for pensioners.' A directory of local community services is also provided. The information thus disseminated ranges from very local to regional and national.

The Post Office Ltd. were very positive about the Factor Four service and the Community Reinvestment Partnership model. Credit unions have frequently asked if the Post Office could act as a free paying-in point but, given the loss of revenue income and the fact that sub-Post Offices are small businesses, this is not viable. However, if an arrangement could be struck for CRP services to use Post Offices as paying-in points for Factor Four alongside credit union collection points and shop fronts, then Gilliland felt that the interface the Post Office Ltd. are seeking with credit unions at the community level might be structured on a sustainable basis.

It is encouraging to note that energy suppliers have already considered collaboration with the Universal Banking Service. A Working Group organised by Ofgem has made proposals in a report on Fuel Direct (Ofgem, January 2001) for a new form of direct deductions for people on benefits, which could operate more cheaply than the current fuel direct arrangements. This new scheme would operate in a similar fashion to the Republic of Ireland's Household Budgeting Scheme, which is administered by the An Post, the Irish Post Office, on behalf of the Department of Social, Community and Financial Affairs. The idea, which is still under discussion, is to use facilities at Post Offices for making deductions direct to suppliers to meet fuel bills. These would be similar to direct debits, but made on a weekly or fortnightly basis to coincide with payment of benefits.

5.4 Views of Energy, Money and Home Improvement Advice Organisations

The fieldwork outreach sought views on Factor Four service ideas and in particular bill payment services from a broad spectrum of advisory services with regular contact with low-income households. These included specialist energy advice agencies in the non-profit sector and energy advisors employed by the utilities, organisations delivering debt and money advice and home improvement agencies. Additionally, since water prepayment meter technology for debt recovery was ruled illegal, some water companies have endeavoured to develop money advice services and also to deal with debt problems with hardship funds. Consequently, specific contact with Severn Trent Charitable Trust and the Anglian Water Trust Fund was made.

Energy Advice Services

There is a growing concern that methods to date to deliver energy advice services to low-income households have been only moderately successful. Findings by Boardman and Darby (2000) suggesting that fewer than 1 in 20 low-income households obtains energy advice highlight the need for fresh and innovative approaches. Thus, both from energy advisors working with energy utilities and those involved in delivering Warm Front grants, stronger links with credit unions were welcomed and in some parts of the country such links are already being developed.

The survey findings about Factor Four indicate that at present the links between those agencies offering energy efficiency improvements and other agencies offering money advice services are at an early stage of development. Referrals made from time to time between such bodies are not necessarily followed up to evaluate outcomes for the households referred for help.

However the outlook is encouraging. As part of the UK Fuel Poverty Strategy, the Government has encouraged energy companies to bring forward initiatives to help in reducing fuel poverty. A key element of the schemes coming forward is the development of partnerships between suppliers and other agencies. Typically schemes incorporate the provision of energy advice, access to grants, advice on benefits and access to 'pay as you go' methods of payment and basic banking facilities.

Examples of such innovative approaches are TXU's StayWarm, ScottishPower's Nest Makers and British Gas's Warm-a-Life and Jigsaw schemes. One interesting approach to partnership working is the 'Health Through Warmth' scheme operated by Innogy's npower brand, which provides training to help key community workers identify people in fuel poverty. Through a simple referral mechanism this scheme ensures help with energy efficiency improvements can be given to people who need it most.

Energy companies are also supporting the pilot Warm Zones, which aim to bring greater coherence to the delivery of fuel poverty assistance based on the systematic identification of all fuel-poor households within a defined area.

Nest Makers is a joint venture of the Eaga Partnership and ScottishPower to target low-income households eligible for Warm Front (New HEES) grant assistance. This is a useful example of innovative practice as it delivers several Factor Four type services including:

- A one-stop shop for energy efficiency grant aid;
- Energy advice;
- Welfare benefits ‘health check’;
- A ‘Powersave tariff’ that guarantees annual energy costs.

Referrals come mainly from the delivery of Warm Front through Nest Makers but also from community organisation links, promotional events and networking with national organisations in voluntary and local authority partnerships established by Eaga. Projects with private sector landlords are being developed and an outreach scheme targeting retired trade union members is underway.

Nest Makers is still under development but findings to date highlight the need for impartial advice to be delivered in the home and face-to-face. To date, Nest Makers have found that fuel debt and payment problems are found among 35-40 per cent of service users with a smaller proportion experiencing severe fuel debt problems. The use of moneylenders by many households is notable. Although Nest Makers refer multiple debt households to CABx they have no formal links with such money advice services and no system in place to track the progress of such referral cases.

Nest Makers are in discussion with LINK, the ATM company, about the introduction of a basic payment account to enable Nest Maker customers to pay for fuel with a card facility. This allows direct money transmission of funds without reliance on a bank account and avoids the problem of failed direct debits and bank charges.

Nest Makers has been developing links with both community and employer based credit unions. Small-scale projects with credit unions are underway now in both London and the North East. This work includes links to the take-up of Introductory Bank Accounts with a standing order facility to pay bills. In the initial projects, credit unions receive from Scottish Power £10 per customer recruited to the Powersave tariff and the customer also receives £10 for switching supply. Nest Maker partners, Eaga and Scottish Power, are keen to develop such credit union services more widely nationally.

Money Advice Services and Water Industry Charitable Trusts

Discussions about Factor Four services were held with money advice workers in Birmingham including those at Birmingham Settlement Money Advice Centre, National Debtline and the Ladywood Project. Additional discussions were held with the Money Advice Trust in London – the national organisation which distributes money advice funding from the finance industry. Awareness of the success of the MABS service in Ireland was high among Birmingham Settlement advisors and the Money Advice Trust. The scope to assist those in debt through bill payment and debt repayment via credit unions was very appealing and the case for better integration between energy and money advice was clearly sound. As an advocate of this approach for years through Fuelsavers, Birmingham Settlement was pleased to see the scope for a national pilot being pursued.

The conversion of major water companies like Anglia and Severn Trent to the cost effectiveness and business case for supporting money advice was particularly interesting. Anglian Water Trust Fund was formed by Anglian Water plc in 1996 with the mission to help those customers in difficulty with water and sewerage charges. Since then, this mission has been broadened to assist more widely households in need, poverty, hardship or distress. From 1996 to 2000, hardship grants of £4.6 million were made and an additional £1.7 million has been provided to improve and increase the delivery of money advice services. Anglian Water Trust Fund estimate that money advice service funding alone has so far helped 15,000 households and helped tackle £76 million of debt problems.

Severn Trent Charitable Trust was founded by Severn Trent plc in 1997. In the past four years the Trust has handled over 23,000 hardship grant applications and provided help to over 40,000 of the water company's 3.5 million customers. An average grant is for £379 but there is no upper or lower limit. The purpose of these micro-grants is to help customers in hardship to return to a situation of financial balance.

Like Anglian Water Trust, Severn Trent Charitable Trust funds regional money advice services. The Trust prefers to fund a part time or full time money advice worker post (plus overheads) for an average three year period. Such core grants range from £30K to £50K per agency annually and the Trust has committed over £1 million to date to fund money advice posts in 35 organisations over the past four years.

With regard to micro-grants, Severn Trust Charitable Trust is independent of Severn Trust and imposes no conditions. To date just over 69 per cent of hardship applicants have been awarded financial assistance and total grant aid awards to customers totals over £6.5 million. This practice of giving without specific conditions differs markedly from that of other hardship funds run by in-house Trusts (e.g. South Staffordshire Water and Thames Water) where, for example, water payments must be made regularly over a specified period before an arrears balance will be cancelled.

Severn Trent Charitable Trust financial assistance is not restricted to water bill assistance and can help with other priority debts (e.g. rent or mortgage arrears) or badly needed household goods. The purpose of the micro-grant is 'one-off' help founded on the view, as they express it, of 'compassion with a hard edge'. From their records, this targeted intervention linked to money advice provided by the Severn Trent Charitable Trust in-house debt advisors, and referrals to its funded money advisors in the region, makes sound business sense as seven in ten households assisted to date financially have got back into regular payments.

Severn Trent Charitable Trust and Anglian Water Trust Fund are responding to more and more enquiries from the energy utilities. Severn Trent Charitable Trust has a link with Powergen and is expanding to assist customers in financial hardship in the West Midlands region.

Anglian Water Trust Fund and Severn Trent Charitable Trust consider that other utilities should support similar initiatives. Integrated intervention can assist to give a fresh financial start through the micro grants, establish viable payment systems, and maximise household income through good advice. For both these Trusts the business case argument is strong and experience to date by their parent bodies highlights that such investment delivers:

- Corporate social responsibility;
- Improvements to the circumstances of vulnerable and disadvantaged consumers;
- Good public relations and stronger customer loyalty;
- Good fiscal sense including savings on collection costs, future debt prevention and debt recovery;
- Support for both Government and regulatory social objectives.

Home Improvement Agencies and the Birmingham Home Improvement Partnership

Home Improvement Agencies deliver advice and support mainly to older and disabled households with a focus on Home Repair Assistance programmes. The agencies work closely with Local Authority Home Improvement Grant services. Home Repair assistance is intended to fund relatively minor works but can include some energy efficiency improvements.

In this regard many Home Improvement Agencies give energy efficiency a high priority and are a key potential partner with Factor Four services in relation to the elderly and the disabled. As there are not strong links between Home Improvement Agencies and utility services in respect to energy efficiency, Factor Four could help make linkages.

In some cases, Home Improvement Agency staff operate as surveyors for Warm Front grants. However few HIA staff are trained or able to provide either money or energy advice and only one respondent was qualified in NEA City and Guilds in Energy Awareness.

Unlike Nest Makers, there was no evidence of any links with credit unions among HIAs. Though there have been a few pilots between HIAs and credit unions in the past (e.g. Redditch and Birmingham), generally, among HIAs, knowledge of credit unions is patchy.

Birmingham Credit Union Development Agency and Aston Reinvestment Trust (ART), the community development finance institution for Birmingham, have collaborated to develop the Birmingham Home Improvement Partnership launched in July 2001 with Birmingham City Council and the two city-wide Home Improvement Agencies in Birmingham, Anchor Staying Put and Focus Home Options Agency. The purpose of this partnership is to co-ordinate work on the delivery of integrated packages of advice and small loans alongside home improvement grants and energy efficiency grants.

Birmingham Home Improvement Partnership is just beginning to operate but sponsors including Birmingham City Council, the Housing Corporation, Joseph Rowntree Foundation, Nationwide Building Society, Unity Trust Bank and the Council of Mortgage Lenders see the pilot of this service as having national potential. In Portsmouth, Portsmouth Area Regeneration Trust is working on a similar scheme using the ART model to assist low-income home owners with small home improvement loans packaged with grants. Thus there is considerable scope for a Factor Four service to operate in close collaboration with both the Birmingham Home Improvement Partnership and with the similar initiative developing in Portsmouth.

5.5 Views of the High Street Banks

Interviews with the banks were held towards the end of the fieldwork period. The objective of these meetings was essentially two-fold: (a) to clarify the specific approaches of the mainstream banks to tackling financial exclusion and (b) to share with the banks a model for a Factor Four service and to assess their response. In this sense the interviews were of a similar nature to the ones held with the registered social landlords – in particular the scope for potential strategic partnership was broadly explored.

Interviews were held with five of the ten banks supporting the development of the Universal Banking Service. Because the pilots investigated are in England, Bank of Scotland was not included on the list and those interviewed were Lloyds TSB, HSBC, Barclays, RBS NatWest and the Co-operative Bank. From the viewpoint of the banks, there were three main Government- promoted ventures to combat financial exclusion:

- Introductory Bank Accounts and the Universal Banking Service;
- Credit Union Development;
- Insurance with Rent.

This last initiative is a joint project of the RSLs, the Housing Corporation and the British Insurance Industry. It is intended to assist in meeting the need for affordable houseshold contents insurance by collecting the premiums through rental payments. The interviews concentrated on the first two elements above, but given the success to date by the British insurance industry in working with RSLs to develop affordable insurance policy products, there was an opportunity to consider how the banking industry might learn lessons from this and develop similar partnerships in relation to payment services.

Introductory Bank Accounts and the Universal Banking Service

The take-up of over one million Introductory Bank Accounts over the past two years has been encouraging. As a result the banks feel that the Introductory Bank Account will help significantly to reduce numbers of unbanked cash payer households in the lead up to ACT becoming the normal method for the payment of benefits and state pensions in 2003. Nonetheless they do not see such accounts as a panacea and admit that other approaches will be needed and that in this regard, credit union and community finance services could play a complementary role.

From the banks' point of view, the Introductory Bank Accounts are costly to maintain unless other services beyond money transmission and cash distribution of benefits and pensions can be offered. All banks are profiling their new basic bank customers to see what additional financial services might be offered and developed. RBS NatWest reported that to date, cross selling opportunities for other financial services did not appear significant.

From initial data, it would appear that the biggest take-up of basic bank accounts has come from:

- Lower-income households in work
- Young single people in work (20-25 years)
- Young unemployed people on benefit (16-20 years)
- School leavers not yet able to borrow (16-18 years).

Profiling will enable some account holders to be offered additional services such as:

- Switch card facilities;
- Savings accounts such as ISA Mini-Cash;
- Small amounts of credit.

For the banks though there are concerns that some households are so poor that they will be unable to hold funds in the account, will not profile for other services, and may not be able to work to the strict disciplines of the direct debit system for bill payment. According to Lloyds TSB this could present a serious problem for 'vulnerable people on low incomes that struggle (understandably) to budget their finances on a day to day basis'.

Lloyds TSB pointed out that for many such low income households, the use of direct debit for bill payments should not be assumed to be a panacea for successful budgeting and cost savings. The direct debit system is unsympathetic to even a modest delay in the provision of covering funds, e.g. if the utility payment is due on the first of the month but funds are not paid in until the second of the month, the direct debit will not be paid and some banks will charge up to £30 for the work involved.

For this reason, Lloyds TSB was sceptical about any poorly considered move to shift households from prepayment meters that all agree help with budgeting on to bill payment services which could cause more payment hardship not less. In this regard, it argued that if the banks were expected to deliver basic bank accounts at no greater cost than to other mainstream customers, should not utility companies be working to narrow or remove the differential prices between what low-income customers are surcharged and what better off customers are paying by virtue bank direct debit arrangements and associated discounts.

In the view of Lloyds TSB, it could be simpler and at the end of the day more cost effective to simply level the pricing differential between prepayment meters and other forms of payment so that households are free to choose the payment mechanism most suitable to help them manage their finances.

In any case, for many low-income households diverse systems of payment might be attractive to give broader flexibility through say a mixture of a prepayment meter for fuel and a bill payment service for other outgoings where a prepayment meter was not an option (e.g. rent, water, telephone, Council Tax, clothing catalogue, etc).

Lloyds TSB also was sceptical of the price differential argument between prepayment customers and customers on the credit meter tariff – particularly where direct debit arrangements were not in place, as billing and arrears chasing are notoriously expensive. Other banks echoed this concern in different ways and felt that regulatory pressure to tackle exclusion was, as Lloyds TSB had stressed, not in equitable balance between banking and energy services. Moreover if they were to become involved with the Community Reinvestment Partnership, Lloyds TSB in particular would like to see this issue addressed to alleviate burdensome tariffs on the fuel poor.

In respect to accounts like Jigsaw, the banks were cautious about this tie up between British Gas and HBOS. They all had been approached by different utilities to consider something similar. They could see the financial benefits for the utility but not necessarily for themselves. Indeed one bank felt they would be lumbered with many costly accounts with little scope for cross-selling other financial services. The proposed solution was for the utility to share some of its financial savings from improved cash flow, reduced arrears and debt problems, etc. with the bank partner. This suggestion was not well received by the utilities. On this matter to date, Ofgem has taken the view that as payment method is not a good proxy for fuel poverty (e.g. half the fuel poor are pensioners – few of whom use prepayment meters), the equalisation of prices would not be of overall benefit.

The banks felt that for many financially excluded households such as those in work on low pay and those on benefit who are good money managers, the Introductory Bank Account will work well as HSBC put it 'with the Post Office as a Giant ATM Machine'. The feeling by several banks, such as the Co-operative Bank, Barclays and RBS NatWest, was that it will not reach the needs of all low-income households. Thus there was widespread interest in a complementary credit union approach if 'a good business case could be made'.

Credit Union Services Development

Following the Treasury Policy Action Team 14 report and the Credit Union Task Force reports in 1999, the banks agreed to jointly fund work by the Association of British Credit Unions Ltd. (ABCUL) to prepare a business plan for a Central Services Organisation which could provide bill payment and money transmission services; a Treasury function to manage credit union funds centrally and to carry out other centralised functions such as Training credit union staff to an accredited standard; and national marketing work to grow the credit union market from its low base of under 1 per cent of British households.

The bankers conceded that unfortunately the work on this project came at an awkward time for the banks as, simultaneously, they were being asked by the Government to provide very large sums of money for Universal Banking Services and to develop other ways of reducing financial exclusion such as financial literacy programmes. In this competitive context, the credit union development work was always going to face difficulty. Essentially the banks were not convinced of the credibility of the projections in the business plan of increased credit union membership.

These figures were subsequently modified by ABCUL, but the banks were not prepared to alter the view that the forecasts were not sufficiently robust to justify the £20 million sought to pay for the infrastructure. Nonetheless the banks were sympathetic to the needs of the credit union movement for strategic investment for:

- IT and systems development;
- Paid staffing on a business case basis;
- Better training.

RBS NatWest pointed to their work in recent years on helping credit unions in England develop shop-front facilities through the conversion of former bank branches. They are active in three such projects and working on a fourth in a rural area where the bank branch is open for the local credit union to use on the days when otherwise the bank building would be closed. RBS NatWest feels this sharing approach has good prospects in rural areas and possibly in some urban areas.
Both RBS NatWest and Barclays thought the close involvement of RSLs in the Community Reinvestment Partnership model was strategically sound as RBS NatWest have worked effectively with an RSL in Salford in converting their former bank branch to a credit union shop front; Barclays is now working through its Woolwich Bank subsidiary in promoting Introductory Bank Accounts through partnerships with RSLs.

Bankers thought there was considerable scope for the credit union movement to flourish. RBS NatWest were well aware of the success of the Community Development Credit Unions in the USA and saw lessons from this success as vitally important. Barclays Bank stressed that, after the need to rescue the insolvent Camberwell Credit Union in South London in 2001, in any growth plan for credit unions that the finance industry might fund the 'banks want to see professional outfits and strong financial controls.'

In this regard, HSBC emphasised the importance of the new regulatory regime coming into force for credit unions in July 2002 when the FSA begins to enforce the amended Credit Unions Act 1979 and the Financial Services and Marketing legislation then coming into force. However HSBC was concerned that the new regime may favour the growth of the larger employee based credit unions and work to the detriment of the community based credit unions dealing more directly with those on low income. Given that some of the larger employee based credit unions have already the tendency to compete in the financial services arena with the banks, this development in the view of HSBC 'would colour attitudes towards the bank support for the movement.'

Nonetheless Barclays see that 'credit unions have an important role to play' in reducing financial exclusion in the years ahead as the Introductory Bank Accounts will not address the needs of all low-income households.

The need for some form of Central Services Organisation was recognised by most of the bankers. However several bankers such as RBS NatWest and Barclays drew attention to more urgent issues such as the weaknesses of community credit unions run almost entirely in most cases by volunteers; the lack of proper opening hours and access to the public; the poor management of many credit unions (such as the insolvency of Camberwell Credit Union in London and others elsewhere nationally); and therefore felt that these matters should be strategically addressed as a priority. RBS NatWest stressed the need to get beyond the current impasse over the CSO project and to concentrate, in the short term, on small-scale practical pilot projects like CRP for example that can be tested empirically.

The other issue that some bankers raised was the failure of the Government to put up any strategically targeted funding for credit union development. Such public investment could then be supplemented by the banks in the light of a convincing social business case.

With regard to the Community Reinvestment Partnership model for a Factor Four service, all the bankers wanted clarification. The model was deemed to have many merits but would need to be evaluated on the basis of the business plan itself. Barclays, HSBC and RBS NatWest thought it could work but would like to see ‘the business case’ for the banks, not simply for the utilities. It was deemed inappropriate by Lloyds TSB for the service to contemplate making loans to refinance fuel debts – especially without a guarantee fund from the utilities. This was not in fact a proposal within the Factor Four model but was misunderstood as such by the banker. While Lloyds TSB and the Co-operative Bank were more cautious about the model, all banks were positive about the Factor Four pilot in principle and sought more specific business planning detail.

All bankers were prepared to consider seriously the Community Reinvestment Partnership and some felt there might be some scope for assistance on the budgeting aspects through their financial literacy budgets. As a new approach to credit union and community finance institution development the proposals were of interest to them.

Part III: Social Enterprise Business Plan

6. Community Reinvestment Partnerships: Factor Four Service Pilot Model(s)

The research fieldwork has identified significant consumer interest in a Factor Four style pilot service (especially from existing credit union and community finance institution members) as well as interest from key local partner bodies for both referrals and collaboration such as registered social landlords.

6.1 Description of the Proposed Pilot Service Prototype

The review of bill payment, debt repayment and similar money transmission services developed by credit unions for low-income households in the Republic of Ireland and the USA indicates the potential for replication of similar services here in England. On the largest housing estate in Dublin, the credit union-linked service for paying bills and debts has a turnover of over IR£525,000 per year and this is only one of 50 such sites in the Republic of Ireland.

The Money Advice & Budgeting Service (MABS) developed in Ireland, and linked directly to credit unions, has several key objectives relevant to a pilot service design in England. These are:

(i) Enabling service users to pay their bills through a Credit Union Special Account or alternatively through the Post Office or a bank of their choice;
(ii) Educating service users with money problems about practical ways to budget, to regularly pay their bills, and to steadily repay their debts in an affordable way;
(iii) Arranging, as necessary, for a rescheduling of debts as an integrated part of the service;
(iv) Promoting sound financial management through outreach work and talks to community groups, schools, and other local bodies.

Another attractive feature of the Irish MABS service is that (a) it was piloted over two years in five parts of the country (urban and rural); (b) it had the full support of the Irish Government, the social landlords and the gas and electricity industries; and (c) the creative use of a partnership model ensured strong support locally and enabled a national roll out to be delivered after the pilot period from 1992-94 (i.e. moving from the five pilot sites to 50 national service delivery areas).

To design the pilot delivery vehicle(s), the researchers brought together credit union practitioners from Birmingham and Liverpool as well as the developers of the Portsmouth Area Regeneration Trust - a community finance institution lender to low-income households which has good links with local credit unions. The purpose of these Business Planning meetings was to work co-operatively to develop a strategy and plan that the community finance practitioners ‘took ownership of’. The practitioners considered the fieldwork evidence outlined above and after working together during three half day sessions in August, October and November 2001, agreed upon the following key features that a Factor Four pilot service should incorporate:

(i) Services offered must be tested and adapted to household needs – therefore flexibility and ample scope for adaptation must be allowed for during the pilot period.
(ii) Whilst fee and commission income will be possible (as in the USA) to pay for many aspects of the service if it succeeds and is to be scaled up, during the pilot a generous level of resourcing through grant aid should be provided (as in Ireland) to appoint highly professional staff and test the model(s) properly.
(iii) During the first year of the pilot, quality rather than quantity should be the emphasis to ensure high standards for the first fifty service users in each city before widening access to larger numbers.
(iv) There are three key aspects of a Factor Four service delivery. These are:

- Outreach and home visits;
- Bill and debt payment through the credit union or community finance; institution along with integrated Factor Four energy and money advice;
- In-depth debt advice for seriously insolvent consumers.

The first aspect of the service should be shared with service delivery partners including RSL staff, HEES agencies, utility energy advisors and home improvement agency staff. The second aspect is the core service that the pilot staff should do themselves. The third aspect should be outsourced to a sub-contracted money advice agency partner on a service level agreement basis.

Under the core service, the Factor Four pilot staff will deal with resolving debt problems in respect to most bills such as gas, electricity, rent, Council Tax and water but in serious multiple debt situations, these cases should be sub-contracted to the specialist debt advice partner(s) appointed.

(v) There will be a need for a social enterprise network (perhaps similar to the one being established in New York by NYC*f*NAC) to be established to provide co-ordination, communication and co-learning opportunities among the proposed pilot site agencies in Birmingham, Portsmouth and Liverpool. In each area, a host accountable body should be appointed to take responsibility for the local pilot delivery. In this regard, the links as in the USA and Ireland between a non-profit affiliate and credit unions should be replicated. For example, in Birmingham the non-profit affiliate/accountable body could be Birmingham Credit Union Development Agency servicing local credit unions (like Ladywood Credit Union); in Portsmouth the non-profit equivalent could be Portsmouth Area Regeneration Trust (PART) working with the two local credit unions; and in Liverpool the non-profit body could be the Scarman Trust working in close partnership with Riverside Credit Union.

(vi) To ensure success, each area should develop a local Community Reinvestment Partnership Steering Group including representatives from:-

- A utility partner in each area;
- At least three RSL partners in each area;
- A banking partner in each area;
- A Warm Zones or HEES partner in each area;
- A Post Office partner in each area;
- A Benefits Agency partner in each area;
- A local government partner in each area.

(vii) For testing and comparing different payment of fuel arrangements, in each area at least one RSL should be recruited that is willing to develop a 'Heat with Rent' service during the pilot.

(viii) Each pilot area should include at least three staff to include two advisory staff able to deliver integrated energy and money advice and one administrator to operate the bill payment service and money transmission system.

(ix) Computer and IT systems should be based on experience drawn from Ireland and be compatible and robust. Additionally, interfaces with the banking payment systems should be aided by the partnership with the banks in each area. The pilot should also test partnership working with both the Post Office and the Benefits Agency in the lead up to electronic payment of benefits and pensions. Here lessons from the problems encountered in the USA by credit unions should be taken on board.

(x) The pilot service should link up with plans by the Home Office and DfES (cf. in Appendix 2, the Community Finance & Learning Initiative in Liverpool with Riverside Credit Union and the Scarman Trust) to trial new programmes which feature financial literacy and money management education aspects, in their service delivery for low-income households (cf. in

Appendix 2, the Making Sense of Our Money project on Financial Literacy through Money Advice Plus - funded by Barclays to pilot services in Birmingham in 2002-2003 that could possibly link to a Factor Four trial). In this area, the successful provision of IDA programmes over the past four years by Community Development Credit Unions in the USA should be taken on board.

(xi) The pilot service over two years should be independently assessed and evaluated.

6.2 Regulatory Perspective: the Financial Services Authority

Views were sought on Factor Four bill payment services from the Head of Credit Union regulation at the Financial Services Authority. Consultation is taking place on further amendments to the Credit Unions Act 1979, to be implemented from 1 July 2002, which will give credit unions more powers in future to operate:

- Bill payment services and transaction accounts;
- A wider range of savings accounts with differential dividend and interest rates;
- Long-term loans for both secured and unsecured credit.

These greater powers will allow credit unions in the words of the regulator 'to fill the gap left by the decline through demutualisation of building societies.' However, such an ambition is presently years away in the regulator's view due to weaknesses in the management of many credit unions. The banks have taken an interest in this matter as they have been asked by Government to meet the much higher costs of FSA regulation of credit unions for the first two years of the new regulatory regime.

The existing management weaknesses will be tackled in future through tougher enforcement by the FSA with the onset in July 2002 of the Financial Services and Markets Act (FSMA). Under the new regulatory regime, the credit unions will participate in the Financial Services Compensation Scheme providing members with deposit protection for the first time. This will be a major step forward for the credit union movement.

To cite some evidence though on existing areas of concern, the FSA (which absorbed the previous regulator, the Registry of Friendly Societies, in December 2001) is aware that among the 587 registered credit unions in Great Britain, 46 are currently insolvent (8 per cent) and a further 35-40 (6.5 per cent) are delinquent in filing their annual return with most of these likely to be insolvent. Indeed, last year one in three credit unions were late in filing their annual returns. The volunteer nature of most community credit unions is at the root of many such managerial problems, but with the new legislation and wider powers, these weaknesses will simply not be permissible.

Taking a realistic view, the FSA realises that there must be a strategy for improving managerial competence and for strengthening the credit unions year-on-year so they can fulfil their potential and build market share. Whilst the FSA is aware of their potential for reducing financial services exclusion, poor management practices will simply not be allowed to continue. The FSA has experimented with allowing larger common bond areas to enable smaller credit unions to merge to form bigger more viable mutuals.

The lead model here is Leeds Credit Union which has moved from being a city employees'credit union to a mixed employee and community credit union involving a merger agreed with nine community credit unions in Leeds. The FSA has also allowed Capital Credit Union in Edinburgh (an employee credit union) to take on a far wider 'live or work' common bond to target community membership. This new 'regional common bond' will cover Lothian and Borders and the FSA will monitor progress on the take up of community membership closely. In each case, the quid pro quo given by the FSA to Leeds CU and Capital CU is that they take on 'the community responsibility' agenda to reach out to meet the needs of low and moderate income households.

The FSA could see the scope for time-limited grants to enable small credit unions to take on staff and become equipped to grow substantially. But, given bad experience with grant subsidies in the past, the FSA stressed that such grants needed to be time limited (i.e. for a few years only) and performance measured against business plan targets for growth. Here the idea of a £3 million Challenge Fund like the DTI Phoenix Fund for community development financial institutions had some appeal to the FSA.

Such funds have already been established in both Scotland and Wales to provide grants for credit union growth via targeted subsidies for paid staff, shop fronts and IT against demonstrable business plan needs. In Wales, the Welsh Assembly has established a £3.5 million national credit union growth fund and in Cardiff, plans are being considered to merge 11 community credit unions into one city-wide 'live or work' Cardiff Credit Union covering the city's entire population of 400,000. To date, no such growth fund has been established for England.

As far as the ABCUL Central Services Organisation (CSO) business plan is concerned, the FSA feels that it is a pity that this did not get the support of the banks and, given that the world economy is moving into recession, feels that a further opportunity like this is now several years away.

In respect to Factor Four, the FSA commented that they feel money transmission will in future be a big area of business. At present they are aware that there are a number of small credit unions operating such services. The FSA takes the view that credit unions are not permitted under current legislation to charge for such facilities and this has hampered development.

It is a moot point, according to legal advice from Wrigleys Solicitors (cf. Appendix 4), as to whether the FSA have interpreted the Credit Unions Act correctly in suggesting that Credit Unions do not have the power to make such charges. In any case, from 1 July 2002 any lack of clarity or defect in the legislation will be remedied by Government proposals to provide for a specific power to allow such charges for bill payment by credit unions on a cost recovery basis. Therefore the FSA found the Factor Four pilot proposals both timely and of particular interest given the future scope for such services to aid and abet credit union development nationally.

Discussions took place about plans in Birmingham to merge credit unions to form more viable bodies. The strategy, which is led by Birmingham Credit Union Development Agency and would comprise up to six larger community development style credit unions along the lines of the US model, was explained to the regulator interviewee who found this approach an interesting variant on the Leeds model.

Provided the Factor Four pilots were well planned and designed, the FSA welcomed the initiative. Indeed John Milne, Head of Credit Union regulation commented that he would be happy to be on the Steering Group for a well-founded pilot project.

6.3 Community Finance Institution Trade Association Perspectives: ABCUL and CDFA

Community Development Finance Institutions (CDFIs) were endorsed in the Government's Social Investment Task Force Report (2000) chaired by Sir Ronald Cohen. This report, *Enterprising Communities: Wealth Beyond Welfare,* for which New Economics Foundation and the UK Social Investment Forum provided the Secretariat, calls for a new Community Investment Tax Credit; a Community Development Venture Fund; new powers for charitable foundations to invest in community development finance institutions; and the establishment of a new trade association for CDFIs to complement the existing trade association for credit unions. The emphasis of the Cohen report is on the promotion of Community Finance initiatives as viable social enterprises and, in recent months, the DTI has recruited a senior civil servant with responsibility for Social Enterprise services and support.

Given the community finance solutions nature of Factor Four, discussions were held with the chief executive of the Association of British Credit Unions. The Community Development Finance Association (CDFA) for bodies like community reinvestment trusts will not be launched until Spring 2002, so a commentary from this embryonic trade association was not obtainable.

Association of British Credit Unions Ltd. (ABCUL)

ABCUL is the largest of the credit union trade associations with 71 per cent (492) of total British credit union members (695). In Liverpool, Birmingham and Portsmouth all the registered credit unions in these cities involved with the Factor Four research are ABCUL affiliated.

The implementation of the HM Treasury Credit Union Task Force Report (1999) will widen considerably credit union powers and potentially enable development of a market share more in line with that in other industrialised countries such as the USA, Ireland, Canada and Australia where a varying range of 15 to 48 per cent of households belong to a credit union. This is in contrast to the 1 per cent household membership (301,735 members) here in Britain (FSA, 2000).

The original Credit Unions Act 1979 envisaged credit unions as small lending co-operatives for disadvantaged groups and imposed severe restrictions on the financial services they can provide. In most low-income communities, where 421 (61 per cent) of registered credit unions operate, they are run in almost all cases entirely by volunteers and are open only a few hours a week to conduct business.

The implementation of the Credit Union Task Force report's recommendations on modernising the Credit Unions Act 1979, which allows for 'live or work' common bonds over larger geographical areas, is providing credit unions with wider powers and the ability to provide a much broader range of financial services. According to ABCUL, this provides the necessary foundations for a strong British credit union movement to expand well in the years ahead.

In addition, quite apart from the legislative reforms, the creation of the Financial Services Authority and tougher enforcement of consumer complaints procedures via Ombudsman schemes, have set an exacting environment for all regulated financial institutions from credit unions to banks. Small volunteer-run community credit unions face a growing burden of quarterly reporting requirements that, ABCUL claims, will make it harder for volunteer-run credit unions to survive unless they are exceptionally well managed by highly motivated volunteers.

The FSA's view here is the same. Mergers are already increasing and the number of credit unions in Britain fell by 4 per cent in the financial year 1999/2000. Steeper falls in the next few years are expected as merger applications in the pipeline are approved by the FSA, and credit unions that are poorly managed are amalgamated with stronger ones through regulatory intervention.

ABCUL's preferred model for putting credit unions on a stronger financial footing, is for larger employee credit unions to merge with local community credit unions to form 'live or work' credit unions as in Leeds and Edinburgh. Similar 'city-wide' or 'borough-wide' mergers have happened in Telford, Portsmouth, Rochdale and Tower Hamlets in London.

This is not the only way of amalgamating and, in Birmingham, four community credit unions are seeking FSA approval of a merger to form South East Birmingham Credit Union covering a population area of about 120,000 with a 'live or work' common bond. In South Wales in the Vale of Glamorgan, two community credit unions have just merged on a 'live or work' basis in a population area of 110,000; and in South Liverpool, Speke Community Credit Union was allowed to change to a 'live or work' common bond and also expand its geographical area considerably to cover Garston district. The new credit union has been renamed the 'Riverside Credit Union'.

For years the growth of community credit unions has been hampered by the high costs of collecting cash payments, especially in poor communities where they were encouraged to fill the gap as ‘poor man’s banks’. The Treasury report and ABCUL stress the urgent need to shed this image and to attract a greater number of households in work. To achieve this, the FSA is seeking to register ‘live and work’ credit unions as the norm now and to allow credit unions to operate over bigger geographical areas with a view to promoting themselves as local mutuals, in a similar way to the historic building societies with their local and regional roots.

As ABCUL points out, this creates a tension. On the one hand there is a commercial need for community credit unions through new ‘live and work’ common bonds to attract more economically active members who can pay by payroll deduction from their employer; on the other hand community credit union activists feel strongly about continuing to help low-income cash payers on benefit and experiencing financial exclusion. Clearly, in this regard, the success in Ireland and the USA (i.e. with Community Development Credit Unions) indicates the scope for achieving an appropriate balance.

ABCUL could see the scope for developing bill payment services since this was highlighted as a future service in the Treasury Task Force Report. Indeed, many ABCUL members do provide such services to some degree already. However, they will not have powers to charge for such services until July 2002 and at present money in bill payment accounts must be credited with the same annual dividend as in savings accounts. There is credit union software (e.g. Keysho’s Curtains) available to track and calculate this. This Curtains program is used by the 12 largest credit unions such as Leeds City or Capital in Edinburgh and has been made available to all the credit unions in Wales.

An issue that ABCUL cited as a major distraction is the way that community credit unions have become fashionable subjects for social policy theorists and regeneration programmes. Sometimes this has been helpful for credit union growth, but often such funding has been a diversion from the vital need for credit union managers to focus on building their business and avoid being distracted by funders striving to achieve different objectives. These objectives serve to confirm the ‘poor man’s bank’ syndrome. Thus, for ABCUL, a project like Factor Four must address the social business agenda to help community credit unions with ‘live or work’ common bonds thrive in the future.

ABCUL is keen to develop partnerships with registered social landlords to further credit union growth, and is also strongly supportive of experiments with utilities, such as that in South Wales with Swalec, to promote energy efficiency as an additional incentive to membership.

With regard to the success of the MABS service in the Irish Republic, ABCUL agreed that this has indeed been a major success, but noted that key ingredients for the success were Government financial support and the strong financial base of Irish credit unions themselves. Given the need to develop effective bill payment services, and the scope to help credit unions develop, ABCUL is happy in principle to support a Factor Four service in appropriate locations, but stresses the need for such developments to strengthen community credit unions and their ‘bottom line’ if they are to work.

7. Diverse Pilot Co-ordination: Marketing Plans, Governance and Operational Issues

The Irish MABS system grew out of initial pilots working to a common delivery system. However, MABS was able to draw upon a proven prototype, the Lough Scheme, pioneered by Brendan Roche in Cork City. Here in Britain we do not yet have such a prototype and therefore a British pilot will need to be more experimental and, for this reason, be shaped somewhat differently in each of the three suggested urban locations. Meetings with practitioners from Liverpool, Birmingham and Portsmouth to develop the business plan(s) have helped to clarify the modified approaches in each city which, nonetheless, have core services that will distinguish them as Community Reinvestment Partnerships.

7.1 Pilot Cities and Area Descriptions: Birmingham, Portsmouth and Liverpool

The three cities were selected in the scoping study for Ofgem (NEA and NEF, 2000) because they (a) already have an infrastructure of community-based credit unions or a community development finance institution upon which a Factor Four service could be tested (b) have large areas of disadvantage and fuel-poor households and (c) are in different regions of England and so represent a good geographical spread for a potential national trial.

With hindsight, it would have been sensible with a larger budget to also look at a rural region and, during the course of this work, groups in the South West (e.g. Somerset, Dorset and Devon) have expressed interest in a potential rural pilot through what looks to be an emerging partnership between rural credit unions and the developing Wessex Reinvestment Trust - which is similar to PART in Portsmouth.

Based on the demand evidence in Section 4 for Factor Four services from the national sample, it is possible to calculate local demand estimates based on area population sizes and local demographic data available in respect to the variable average household sizes (e.g. 1.93 persons in Birmingham) for the pilot sites investigated. These calculations of potential local market sizes in each of the three cities are set out below.

Factor Four Services - Local Market Estimates

	Approximate number of households that would be interested, using narrow and broad definitions		
Number of factors	**Birmingham**	**Liverpool**	**Portsmouth**
Four Factors	1,360 - 8,150	425 - 2,550	780 - 4,680
Three Factors	1,360 - 4,080	425 - 1,275	780 - 2,340
Two Factors	2,720	850	1,560
Bill payment only	5,430	1,700	3,120
Other factor, not bill payment	8,150 - 10,870	2,550 - 3,400	4,680 - 6,240
Total interested in a Factor Four approach	10,870 - 20,380	3,400 - 6,375	6,240 - 11,700
Base (households)	*135,847*	*42,455*	*78,000*

In respect to the local context of each of the three cities investigated, the brief descriptions that follow provide separate regional profiles of the work of the credit union or community reinvestment trust bodies and also highlight relevant developments underway in each city.

Birmingham – Context and Brief Description

The city has 31 credit unions - one of the largest regional concentrations of credit unions in the country. There are 27 community-based credit unions and four employee-based credit unions. Across the city in December 2001, there were 18,300 credit union members and over £12.8 million in assets. However, the three employee credit unions (for city council employees, the fire service and the police) account for 63 per cent of credit union members and 80 per cent of the assets. This imbalance is not uncommon in other regions of the country.

The Birmingham strategy for tackling lower levels of membership and slower asset growth among community-based credit unions is to encourage community credit unions to cluster and, over time, to consider mergers. This strategy is beginning to take shape and six geographical clusters have been formed in North, South, East, South East, North West and Central Birmingham. The average asset base in each cluster area is just under £400,000 and the average membership base in each area is 1079.

With support from Birmingham City Council and European Regional Development Fund money, two shop-front premises were opened in 2001 and 2002. The first of these facilities, for the South East area of the city where the four clustered credit unions have agreed to merge, opened in May 2001. The proposed merger by the FSA was approved and the shop front now provides office facilities for the South East Birmingham Credit Union with a 'live or work' common bond. The second shop front opened in Erdington in January 2002 and, in due course, will provide an office for the anticipated North Birmingham Credit Union although the discussions of a potential merger of three to four credit unions in the North of the city is still at an early stage. Nonetheless, the clustering and co-operative activity in this part of the city between the community credit unions is good.

The shop fronts have been developed as a common infrastructure for all credit unions in the city and Birmingham Credit Union Development Agency (BCUDA) is operating the shop fronts in partnership with local credit unions. BCUDA is steadily implementing an agreed IT strategy with the credit unions in the city to standardise and develop common systems for effective operation of the shop-front systems and other future electronic services. Thus Birmingham is well placed to deliverer Factor Four services through a Community Reinvestment Partnership.

The three pilot target areas for the pilot in South East, North and Central Birmingham cover a population size of 262,165 adults and 135,847 households. From this, a local demand estimate for Factor Four services in these three areas of the city combined has been calculated as ranging from 11-20,000 households.

In summary, Birmingham has an ambitious growth programme and implementation of a clear strategy for credit union expansion to reduce financial services exclusion is underway, with the full strategic support of Birmingham City Council.

Portsmouth - Context and Brief Description

Portsmouth Area Regeneration Trust (PART) has been set up by an alliance of Portsmouth Housing Association (PHA), Lloyds TSB and Salford University to provide loans to financially excluded individuals and organisations in Portsmouth, Gosport, Fareham and Havant. In the city of Portsmouth alone, more than 6000 people have no bank account. PART is the first of a series of pilot Community Reinvestment Trust projects being promoted by the Centre for Community Finance Solutions at the University of Salford. In its first full year of operation, over 500 people have approached the project. Funds to the value of £120,000 have been advanced to 200 low-income households. Although a provision of 10 per cent was included as a potential bad debt write-off, the actual charge off rate has been under 3.5 per cent to date.

Approximately one half of those approaching PART are seeking advice or require an introduction to another service provider such as the Citizens Advice Bureau, the local credit union and other similar service advisors. PART offers a range of loan services, which help local people with training and getting into work, starting up new businesses, personal expenses and helping to regain control of their finances. PART has fostered close links with the local credit union - Portsmouth Savers Credit Union. From September 2001, PART has acted as a collection agent for savings accounts with the credit union and has thus been able to plug a gap in its service provision. The credit union will, in turn, suggest that unsuccessful applicants for loans should approach PART. Thus a two-way partnership between PART and Portsmouth Savers Credit Union is now in operation.

It is proposed for its second year of trading that PART at least doubles the number of loans granted and that it extends its services further to the financially excluded. A cheque-cashing service has been implemented for existing customers and will be offered to non-loan customers. PART has been shortlisted by the Department for Education and Skills (DfES) to participate in their Community Finance & Learning Initiative which will build upon PART's existing Outreach/Inclusion Officer initiative funded by the Community Fund. PART is thus ideally placed to pilot the Community Reinvestment Partnership Model in South East Hampshire.

The population area proposed to be served in the pilot is 153,000 – this is the resident adult population of Portsmouth which comprises about 78,000 households. The local market demand figures for Factor Four services in Portsmouth has been estimated as ranging from 6-11,000 households from the Omnibus survey national findings.

The innovative pilot of Factor Four services will build strongly upon PART's existing relationships with Portsmouth Housing Association and other local Registered Social Landlords and complement its existing loan and advice work. The formation of a local Community Reinvestment Partnership addressing the issue of fuel poverty is the next natural step to further develop the role of PART in helping those excluded from mainstream financial services gain increased control and payment flexibility for their utility payments.

Liverpool – Context and Brief Description

Liverpool has 20 credit unions, 17 of which are community based and three employee based. Riverside Credit Union has collaborated with the research for this business plan and is one of the largest community-based credit unions in the city. Founded in 1985 as the Speke Credit Union, Riverside Credit Union became a 'live or work' credit union in 2000 and now covers employees or residents of both Speke and Garston districts of South Liverpool. This is a population area of about 82,363 who are aged 16 plus and living in the local postal code areas of L19 and L24. The credit union has 2960 members and assets of just under £500,000 with £470,000 out on loan.

Riverside CU operates out of an ex-TSB branch in Speke and is open for business four days per week from 9.30am to 3.30pm. Two other collection points are operated and good links have been established with the local Citizens Advice Bureaux in Speke and Garston. The credit union has two paid staff and 15 volunteers.

Riverside CU has worked to develop a range of services to better meet member needs including a funeral plan and insurance services with the Homeowners Friendly Society. A bill payment service has been operated with Manweb to handle quarterly bills and cash payments, but Riverside CU would like to develop a more sophisticated service like Factor Four to help households budget and to access high quality advice. In partnership with the Scarman Trust, Riverside CU has also promoted Individual Learning Accounts among its members and sees the wider scope in future for specialised savings accounts to be developed, such as the Individual Development Accounts that the Treasury are examining and that have been so successfully promoted in the USA by Community Development Credit Unions.

7.2 Marketing Plan – Outreach through Partnership and Targeted Marketing

Since the pilots are testing an unproven model, the community finance practitioners in each city felt that the first year needed to be treated as a Set Up Year 0 and should have a dry run in each city with, initially, a low volume of customers. This experimental year was also recommended by NYC*f*NAC CDCU practitioners in the USA who stressed the time required to develop intensive co-operation with pilot staff in each city and to recruit and involve key strategic partners such as the three registered social landlords recruited to join the partnership, the utility partner, the local authority, the money advice agency sub-contractor and the banking partner.

Given that this setting up and experimental period is essential to develop a robust set of systems with the potential to scale up in the second pilot Year 1, it is expected that marketing will be limited in Year 0 and restricted to recruiting existing credit union members and further recruitment of RSL tenants. The goal would be to recruit for each city pilot scheme no more than 50 to 75 Factor Four members in Year 0 and briefing actions with RSL housing management partners, credit union volunteers and debt advice agencies should suffice for recruiting the test sample of members in the first setting up year. If not already members, those recruited would become members of the local credit union delivering Factor Four or, in Portsmouth, PART.

A steady scaling up of the service in Year 1 (the second of the two pilot years) and progressive implementation of a targeted marketing plan would then attempted, but the service would also be prioritised to reach those most in need and in fuel poverty. Here the PFRC research shows that the targets would be:

- RSL tenants under 40;
- RSL tenants with children (including lone parents);
- Private sector tenants;
- Single-earner households;
- Low-income home buyers under 40.

To reach families, posters and publicity literature would be developed for distribution through:

- Credit union shop fronts and collection points;
- School community rooms, nurseries and mother and toddler groups;
- Doctors' surgeries and maternity clinics;
- Energy efficiency installers, health visitors and district nurses;
- Gingerbread groups;
- City Council Neighbourhood Advice offices and local Citizens Advice Bureaux;
- Religious centres;
- Community projects working with younger households and providing family services.

Single-earner households would be targeted through the RSL partners and the Learning and Skills Council as well as through employer organizations in particular to areas of the city where payment services will be based. Equally, low-income homeowners will be targeted through local residents groups in areas of the city with particular housing disrepair problems. City Council Urban Renewal Officers running improvement programmes, home improvement agencies, energy efficiency installers, and sympathetic local estate agent will also be involved.

7.3 Local Partnership Building and Referral Network Development

Mobilising partners to make the Factor Four Services work to substantially reduce fuel poverty and financial exclusion is the big challenge. Ultimately, if Factor Four services work, the results are overwhelmingly beneficial for a long chain of partners. First to benefit will be the fuel poor who will combine improved financial circumstances with a warm home for themselves and the other members of their household. Other beneficiaries will include the RSL, the utility, the water company, local authorities, the phone company and banks.

Given the range of stakeholders who stand to benefit, the pilot staff will need to spend a lot of effort recruiting motivated individuals with imagination and time commitments agreed with their organisation (i.e. so many days per year) to help with strategic planning in Year 0 and the implementation plan in Year 1. As the prototype model in 6.1 suggested, this should include senior managers from utility bodies, RSLs, a bank, the local authority, the Benefits Agency, different local authority departments, energy efficiency installers and home improvement agencies. The partners in the CRP may be as many as a dozen, but the emphasis of the partnership must not be in time-consuming committee meetings but on Action Groups and problem solving to refine the local Factor Four delivery system design to maximise effectiveness during the two year pilot.

Selection of a chair and vice chair should be done carefully and those appointed should be proven and experienced achievers.

7.4 General Marketing Techniques and Resource Implications

Several different techniques will have to be deployed in Year 1 to expand take-up of the Factor Four service. The following techniques are worth considering:

- **Incentive schemes:** a free bill paying service if you elect to have three or more bills paid regularly – otherwise the service might charge £5 per year for two bills and £10 per year for one bill only;
- **Introductory offers:** free compact fluorescent bulbs or a low energy kettle if households join by a certain date. These should be time-limited offers and repeated periodically but not at regular intervals to avoid people waiting before joining;
- **Prizes or gift vouchers:** for existing credit union volunteers or members of PART who recruit another member plus a larger prize for the best recruitment agent and runner up at the credit union or PART annual meeting;
- **Stories about Factor Four successes:** placed in credit union/PART newsletters and in RSL tenant newsletters, community press, council publications, Winter Warmth campaigns and the local media;
- **Poster distribution:** placed widely on notice boards in local GP's surgeries, community centres, RSL offices, Benefits Agency offices and in advice centres.

There will be a need for a reasonable marketing budget for Year 1 and beyond the pilot period and, assuming success, in Years 2-4. From this point onward, when the services need to expand, assistance should be sought from fuel companies and others in the Community Reinvestment Partnership by direct mailing to potential customers. Special approaches will be needed to make the service available to those with disabilities, visual and hearing impairment and those with low literacy skills. The marketing campaign will require:

(i) leaflets, posters and other printed material;
(ii) translation of material into relevant languages;
(iii) staff time allocated and associated costs;
(iv) postage for freepost replies;
(v) a budget and plan for diverse incentive payments;
(vi) mail costs or contributions (but it is hoped that partners will cover this on a pro bono basis or sponsor);
(vii) training of volunteers;
(viii) display boards and professional exhibit stands for local conferences and events.

The leaflets and other marketing material should include a detachable freepost reply card for those wishing to join or arrange an office appointment or home visit by staff or RSL partners.

7.5 Shop Facilities, Opening Hours and Security Issues

It is planned that the earliest of the three pilots would secure funds to start in April 2002 and the other two would start as soon as possible in that financial year. A rural pilot or another urban pilot would not be able to start before April 2003 but could benefit from a shorter Year 0 because of shared learning from the first three pilots.

Priority will be given to specific geographical areas of the three cities: South Liverpool (i.e. the geographical boundary area of Riverside Credit Union which includes Speke and Garston); the City of Portsmouth itself; and the areas of the South East Birmingham Credit Union (i.e. Sparkbrook, Sparkhill, Balsall Heath, Kings Heath, Moseley and Hall Green), the Central Cluster of Credit Unions (i.e. Ladywood Credit Union, Newtown South Aston Credit Union, and Lee Bank Highgate Credit Union), and the Northern Cluster of Credit Unions (i.e. Erdington & District Credit Union, Kingstanding Credit Union, Castle Vale Credit Union, and Sutton Coldfield Credit Union).

In Birmingham there would initially be at least three payment facilities open five days a week from Tuesday to Saturday in Year 0. Late night opening on at least one night a week will be offered. Other payment facilities would be developed for the expansion planned in Year 1 through the development of the Community Reinvestment Partnership (CRP) – for example, via RSL offices.

The objective would be for RSLs, local Post Offices, the banking partner and local authority partners to increasingly assist in this way with the extension of paying in points over time. Indeed, PayPoint and PayZone might be used as well as the service is expanded beyond the pilot Years 0 and 1 – subject to success. In Liverpool and Portsmouth a similar expanding range of paying-in points would be developed through the CRP development work.

Site locations for credit union or PART offices need to be chosen carefully to maximise use and accessibility for cash payers. High street locations near bus routes should be sought within a realistic budget, for a short lease initially, but with an extension negotiated and built in to the agreement. The premises should be shop-front facilities and ideally have minimum A2 planning consent. Advance rent payments for the pilot period should be used to negotiate a discount.

If possible, premises recently vacated by a bank or building society should be located with security features in place (e.g. solid counter and band screens), reasonable size and an adequate public area for customers to queue. If this is not possible, work with the banking partner should seek to source equipment from surplus stock such as fixtures, fittings, security cameras, safes and furniture. The equipment should be good quality and nearly new to ensure the offices are attractive to customers and modern looking (i.e. not resembling down market facilities or a ‘poor man’s bank’) with good signage and lighting.

It is anticipated that most sites located will not be ex-bank or building society because of the slow-down of bank closures during the past year. With Post Office rationalisation coming, sub-Post Office sites might be a possibility – indeed joint venture arrangements on site locations beyond the pilot period Years 0-1 may well be possible with the Post Office Ltd. for the medium term. However, for the pilot, it is generally assumed that premises will need considerable shop refitting and refurbishment and, based on Birmingham experience in the current year, with capital costings per site of up to £50,000.

These costings plan for high quality, lock-up facilities including alarm systems, roller shutters, window bars to the rear and side, efficient heating, new carpets and decor, confidential interview space for Factor Four enquiries, storage facilities, toilet facilities and a kitchenette, staff meeting area and offices for the area credit union or CDFI (e.g. PART).

The budget for the Business Plan includes costings for capital items such as the above as well as other security features such as audible and personal alarms, CCTV, movement detectors, external spotlighting for burglar sensing and fire prevention measures. The capital budget has built in additional monies for software and hardware, signage, displays, window coverings, sanitary fittings, additional plumbing and electrical equipment, office equipment and a telephone system. A 10 per cent contingency in the capital budget is included.

7.6 Fuelsavers Advisors, Bill Payment Operations and Debt Advice Partner

The integrated operation of money and energy advice was proposed over a decade ago in the joint report by Birmingham Settlement and Community Energy Research, *Fuelsavers – a Practical Approach to End Fuel Poverty (1990),* which was funded by British Gas. This report outlined a Factor Four style service and efforts by a FuelSavers Alliance (including NEA and eleven energy advice agencies) to obtain funding for a national network of such services to tackle fuel poverty. However, this recommendation was not taken up by the Government which opted to establish the Energy Saving Trust as the primary agency to deliver energy efficiency programmes.

Subsequently, Birmingham Settlement operated Fuelsavers services despite limited funding from 1992 until 2000 when funding unfortunately ended after many years of popular and successful operation in the Newtown, Aston and Handsworth areas of inner city Birmingham. Birmingham Settlement Fuelsavers operated as a peripatetic service and the integration of money and energy advice was successfully achieved.

In the past year, with the Warm Zones regional pilots underway and given the high profile of Warm Front, the Birmingham Settlement National Money Advice Training Unit and the Energy Conservation and Solar Centre (ECSC – a Fuelsavers Alliance member in 1992) have been discussing a joint two-day course to train staff in delivering integrated money and energy advice.

This type of integrated advice has been called Fuelsavers Advice and it is proposed that this is continued under the Community Reinvestment Partnership. However, as most Factor Four users will also need help with water, rent and other bills, it is proposed that the bill payment account delivered by credit unions or Community Reinvestment Trusts under CRP be called the Monergy Account. This was the name used by a Government campaign to promote energy efficiency in the late 1980s and could be used to market the core Factor Four product with Government consent.

The Monergy Account service would be operated as follows:

(i) Existing credit union or PART members would pay a very small membership fee (e.g. £1 to £5) which would be annually renewable at £10 per year if only one bill was paid through the service or £5 if two bills were paid. For those electing to pay three or more bills through the service, there would be no annual charge after the initial joining fee.

(ii) Member payments are invested in a new share capital or Monergy Account. All monies regularly paid in are credited to this number 2 account just as the MABS system of Special Accounts operates in Ireland. A software package such as that used by MABS would be used to provide transparency. Member accounts and management information generated would be shared between Community Reinvestment Partnership (CRP) staff and the credit union/PART staff and volunteers taking in payments. Members would sign agreements for this information to be shared in a limited way to facilitate the interface between CRP partner members handling payments and money transmission whilst observing strict confidentiality.

(iii) The service will enable transfers to be agreed by the members from the number 1 credit union/PART account into the number 2 Monergy Account but not from the Monergy Account to the number 1 account.

(iv) Member contributions to the number 2 account will be recorded by cashiers in the same manner as collections are recorded into the number 1 account.

(v) Fuelsavers advisors will work out with each member a Bill Payment Budget Plan after maximising client income through benefits advice and welfare rights and tax checks. Energy advice will be delivered and Warm Front/HEES and other energy efficiency grants checked for eligibility and applications processed.

(vi) The Monergy number 2 account will be able to deliver both bill payment and debt repayment with IT facilities incorporated in the systems to meet members' needs efficiently. However, as with MABS, the Monergy number 2 account will only be able to settle bills and debts in accordance with the payment plan agreed with utilities, landlords and other creditors from available funds paid into the account. Therefore, a list of priority payments in respect to rent, fuel, water and essential outgoings will take precedence over non-priority creditors or non-essential service providers. This system is also how MABS operates with available cleared funds in the number 2 account.

(vii) Monergy members will receive quarterly statements of account; counter staff will also be available to print out more up-to-date statements on request and advise members of the current standing of the account and any missed payments that need to be made up.

(viii) Fuelsavers advisors, in working out the budget plan, will build in, where feasible, a contingency aspect for unexpected peaks in bills. The payment plan will thus be calculated on a 48 week year basis so that a liquidity cushion is built into the system and some credit accumulated. This calculation allows for the occasional missed payment. The Fuelsavers Advisors will explain to service users that regular payments are essential. For new Factor Four users, a quarterly review meeting will be scheduled to obtain household feedback and make adjustments as necessary to the budget plan. Missed payments will be acted on quickly with reminder letters and phone calls from Fuelsavers staff.

(ix) Fuelsavers advisors will endeavour to build into the payment plan budget, wherever possible, a sum for credit union savings enabling users to put a regular amount of money in their number 1 credit union account to help them access credit for future borrowing needs such as Christmas/religious festivals, school related expenses for children, birthdays, clothing and repairs/replacement of household goods. Fuelsavers advisors will strive to move members away thereby from moneylender borrowing to affordable borrowing through the credit union or community development finance institution.

(x) The bill payment system will allow options as follows:

- Weekly or Fortnightly Payment: this will be the most common option and, for those in financial difficulty, more frequent payments will be possible to help clients operate flexibly within the structure and priorities of the Budget Plan;
- Monthly Payment: for those not in debt the bill payment cycle can operate like a monthly bank account via agreed standing order payments with the utility or other payee in the Budget Plan;

Payee bodies and members will understand that, as with MABS, payments will accrue to payee organisations only once a month from available cleared funds. CRP will negotiate with payee organisations a direct debit equivalent discount for members wherever possible.

(xi) The administration arrangements for the Monergy Account will be agreed with the FSA to comply with credit union best practice for number 2 accounts.

(xii) As ACT will replace Giro Books from 2003 with modern electronic card arrangements, the CRP computer systems should adopt modern IT systems from the beginning that can process ACT transfer payments in the manner that Community Development Credit Unions in the USA handle EBT payments for pensions and state benefits.

(xiii) As with MABS, the credit union or PART which is handling the number 2 Monergy account will only make one monthly electronic transfer on behalf of all its members to each CRP payee (utility company, landlord, City Treasurer, creditor etc.). Attached to this one transmission will be account data for each of the member accounts handled. Monergy Accounts with 'insufficient funds' will be clearly marked.

(xiv) In making the transmissions, the CRP will deduct its agreed agency and commission fees as proposed in the CRP Business Plan financial model (cf. Section 8).

(xv) It is assumed that as many as one in three households that apply to CRP for Factor Four services will need intensive debt advice. These cases will be referred to the sub-contracted Money Advice partner on a service level agreement. A financial statement will be completed by the sub-contractor and a repayment plan negotiated with the household's creditors. These overindebted households can be referred back to join the Monergy number 2 account to manage bill and debt repayments at a later date. There will be a different cost structure for these overindebted clients based on charges for free debt management services such as Payplan and CCCS (cf. Sections 3.3, 5.4 and 8).

7.7 Governance: Local Autonomy with National Co-ordination and Independent Evaluation

Discussions with the community finance practitioners considered the possibility of linking the pilots through a shared back office system. Whilst this is a sensible medium term aim beyond the pilot period, the diverse circumstances prevailing in each city do not allow for assuming a common model at the outset. For example, in Birmingham, pilot developers are looking at the involvement of several credit unions with the Birmingham Credit Union Development Agency as the accountable body. In Liverpool, with Riverside Credit Union, the pilot would focus on one large 'live or work' community-based credit union in a large area of South Liverpool with the Scarman Trust in partnership as the accountable body. In Portsmouth the pilot would be led by PART, a community finance development institution with charitable status, as the accountable body working in partnership with the new city-wide Pompey Savers Credit Union.

An emerging view among the local community finance practitioners is that Community Reinvestment Partnership pilots should be seen as locally governed through the three accountable bodies specified above, but connected through a restricted membership organisation which would act to co-ordinate efforts among the separate bodies and facilitate co-learning and close communication.

As this body is intended to operate in the medium term, if the pilots are successful, as an expanding social enterprise (as the protoype model proposes in 6.1 for CRP), it is recommended that a mutual legal structure (i.e. an Industrial and Provident Society for Community Benefit – the most common CDFI legal structure) is adopted for this network body. In the medium term, subject to success of course, operation beyond the first two years might see direct provision of some back office services with others contracted out (e.g.as a secondary mutual like the New York City Financial Action Network Consortium (NYC*f*NAC).

It is suggested that New Economics Foundation service the simple CRP network body during the pilot period and that a specific energy efficiency and training role is determined for National Energy Action to complement NEF's role and to help consolidate the integration of energy and money advice good practice. Additionally a mutual learning network for the three pilot site practitioners to participate in is proposed.

Lastly, it is proposed that an independent review and evaluation role is carried out by the Personal Finance Research Centre at the University of Bristol during the two year pilot.

8. Financial Projections for a Community Reinvestment Partnership Model

The Irish MABS model for delivering money advice, debt advice and widening access to financial services via credit union links was funded entirely, in both its pilot phase and beyond into its successful national roll-out, with public investment. Given the more limited central Government funding in Britain for money advice services, this is unlikely to be a way of supporting the funding of a Community Reinvestment Trust model. However, it should be noted that Government funding for money advice services that reach large numbers of households, such as the recent expansion of National Debtline and Business Debtline, indicate the scope for attracting public investment and subsidy to cost-effective projects.

The model set out below does not assume significant central Government funding initially, though this would be most welcome, but does strive to indicate how a Community Reinvestment Partnership (CRP) model could recover the majority - if not all - of its operating costs after five years of grant-aided revenue support. This objective has been pursued through the design of the CRP service as a social enterprise which seeks to charge equitable rates for its services in order to recover legitimate costs through 'value for money' pricing and thus be able continue to expand sustainably as a 'not for profit' business. CRP in the way developed illustrated in this section could operate in this way as a mutual enterprise through a credit union or community reinvestment trust or as an affiliated social enterprise to the community finance sector like MABS operates in Ireland.

The CRP Model Financial Plan comprises a number of elements, set out in this section on successive spreadsheets including:

1. Staffing costs based on employing a Monergy advice manager, second advisor and administrator;
2. Start-up staffing costs based on a Monergy advice manager and half-time administrator;
3. Costs and income for Debt Advice Agency sub-contractor(s) providing comprehensive debt advice and the income that might come to CRP staff;
4. Three options for bill payment services;
5. Payment schedule (payments to utilities);
6. Numbers of clients assisted and income from utilities, RSLs and charitable trust/grant income;
7. Bill payment service – costs and assessment of staff time required;
8. Summary of income and expenditure showing the shortfall during the development period before financial equilibrium is achieved.

8.1 Financial Assumptions in the Model

The assumptions made have been as far as possible based on comparisons with other relevant services operations currently running in Britain and inclusive of free debt advice and debt management operations like Paylink Trust and charges made by bill payment services.

The CRP financial model has been shared with and commented on by a range of potential commercial and non-commercial customers (and thus prospective corporate partners under CRP) ranging from gas and electricity utilities to water companies and social landlords. However, it must be stressed that the assumptions made in this section while aiming to be realistic and reasonable as regards overhead costs on the one hand, and on the other hand, fair and equitable in respect to subscriptions, pricing and charges for cost recovery to be achieved, are themselves set out to be illustrative rather than prescriptive.

Staffing Costs

The costs are based on a team of three staff per pilot site for the long-term; but only 1.5 initially in Year 0 - the setting up year when a trial payment system will be experimented with to test systems and to develop procedures with CRP partners.

Staffing and Other Costs (Start-up)

Direct expenditure

	Salary £	Pension £	NI £	Subtotal £	Number £	Total £
Percentage		5%	12%			
Threshold			4,200			
Senior energy & money advisor	22,000	1,100	2,136	25,236	1	25,236
Money & energy advisor	20,000	1,000	1,896	22,896	0	0
Administrator	14,000	700	1,176	15,876	0.5	7,938
					1.5	33,174

			£
Salary costs (as above)			33,174
Other costs:			
Office	10%		3,317
Office overheads[1]	16%		5,308
Other overheads[2]			1,000
Network service provider			1,200
Admin and finance support	12%		3,981
	£		
Management/personnel[3]	1,500		2,250
Equipment inc computers[4]			8,250
Publicity & materials			5,000
Overhead % (exc publicity)	*89.8%*		
Total direct costs			63,480

1 postage, stationery, telephone etc
2 audit, insurance
3. Cost per staff member
4. £8,250 capital sum

Given the variable institutional landscape to deliver CRP in the three cities looked at (as well as potentially in other areas of England or the UK), the model developed is intentionally flexible and there are a number of options as to how the CRP staff might be employed. For example, CRP staff might be independent but work in close partnership with local credit unions, as with MABS in Ireland or NYC*f*NAC in New York City; or be employed directly by a credit union as similar staff delivering financial advice and literacy are at Alternatives Credit Union in Ithaca, New York; or be employed by a community development finance institution such as Portsmouth Area Regeneration Trust or by Birmingham Credit Union Development Agency - a support body and service provider for all credit unions in Birmingham.

The aim of the budget is to try to show the cost of the work and the income that will need to be generated. The employer of the staff and whether the work is done by several staff part-time or just 3 staff full-time will not affect the budget. The staffing complement for the long-term, Years 1-5, is illustrated below.

Staffing and Other Costs (Long-Term)

	Salary £	Pension £	NI £	Subtotal £	Number £	Total £
Percentage		5%	12%			
Threshold			4,200			
Senior energy & money advisor	25,000	1,250	2,496	28,746	1	28,746
Money & energy advisor	20,000	1,000	1,896	22,896	1	22,896
Administrator	14,000	700	1,176	15,876	1	15,876
					3	67,518

			£
Salary costs (as above)			67,518
Other costs:			
Office	10%		6,752
Office overheads[1]	16%		10,803
Other overheads[2]			1,000
Network service provider			1,200
Admin and finance support	12%		8,102
	£		
Management/personnel[3]	1,500		4,500
Equipment inc computers[4]			2,063
Publicity & materials			5,000
Overhead % (exc publicity)	*55.1%*		
Total direct costs			106,937

1 postage, stationery, telephone etc
2 audit, insurance
3. Cost per staff member
4. £8250 replacement fund/depreciation over 4 years

Debt Advice Agency Sub-contractor

It is anticipated that a third of all clients will have multiple debt problems and will need to be referred to the specialist debt advice agency sub-contractor during the pilot period. Beyond the pilot, it is anticipated that more than one debt advice sub-contractor will be involved. The CRP staff will be involved in initial interviews and will give a time-limited amount of money advice along with energy and fuel switching advice.

It is anticipated that once the referral work and debt restructuring work is completed that CRP will become involved, possibly six months later, in arranging a debt repayment schedule with creditors through the bill payment infrastructure (e.g. similar to how Payplan operates as a money transmission service for free debt advice agencies and their clients).

The assumption has been made that creditors will provide income for the debt advice agency as a percentage (15 per cent) of repayments. This depends on the sums recovered. An assumption has been made that 70 per cent of the income generated will be needed by the Debt Advice Agency involved, but that 30 per cent of the recovery for each client assisted might come back to CRP for initial money and debt advice work and for assistance in setting up the debt management plan.

Payments to other agencies

	Typical debt £	Typical debt recovery £	Contributions by creditors 8.0% £	Retained by agency 62.5% £	Paid to F4 service £
Per client	10,400	4,500	360	225	135

The income as illustrated above will be reclaimed for work retrospectively, though over an extended period of course, as and when the debts are repaid (i.e. in the way that Payplan is operated for the free money advice agencies).

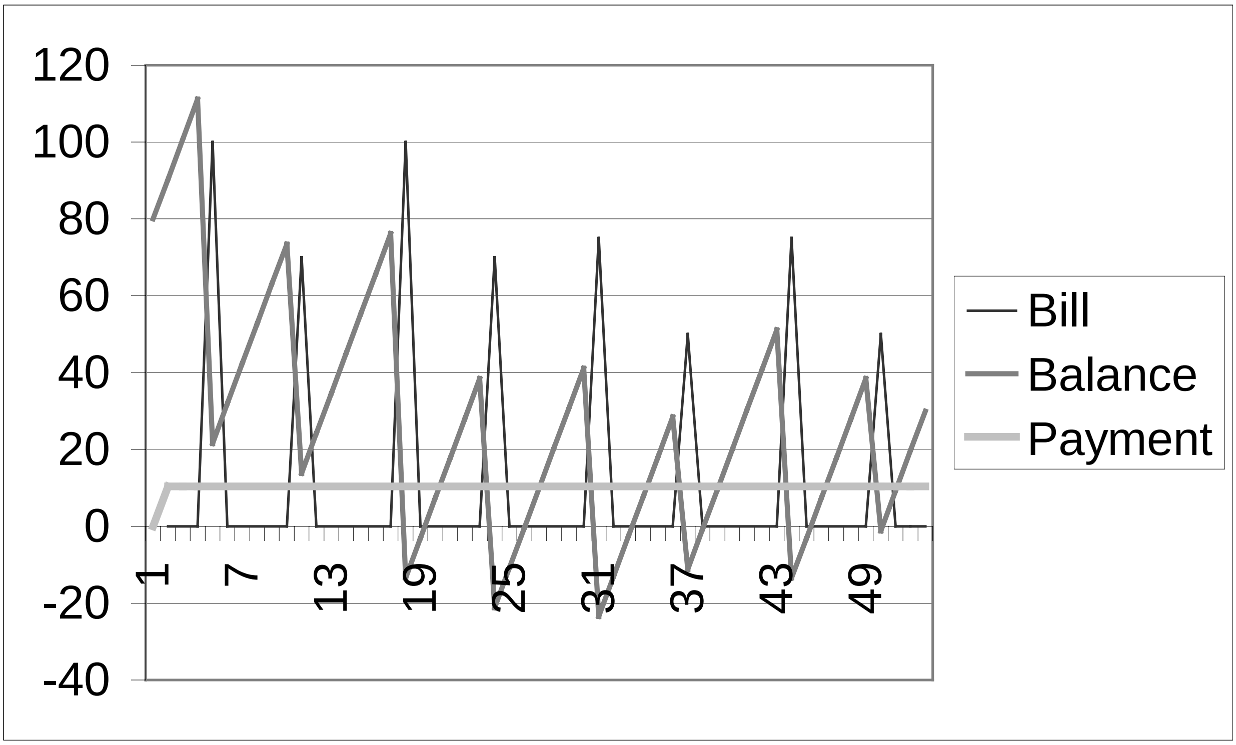
Options for Bill Payment Service and Payment Schedule

The three options are intended to illustrate how the bill payment service will put together payments from clients of the service and pay them over to the utilities. The first two options compare the payment flow for a consumer who pays in full when the bill arrives (first option) and a energy consumer on a weekly budget scheme for gas and electricity (second option) in contrast to CRP member payments weekly through a credit union.

Three Options for a Bill Payment Service

																									TOTALS
Bills due																									
Week		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	50	51	52	
Amount due: Gas					100													100							**350.00**
Electricity											70														**190.00**
																									540.00
Option 1 - client pays bill																									
Payment in		0.00	0.00	0.00	100.00	0.00	0.00	0.00	0.00	0.00	70.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	
Payment out		0.00	0.00	0.00	100.00	0.00	0.00	0.00	0.00	0.00	70.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	
Payment in		10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	**540.00**
Payment out		10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	**540.00**
Option 3 - CU pays bill																									
Payment in		10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	10.38	**540.00**
Payment out		0	0	0	100	0	0	0	0	0	70	0	0	0	0	0	0	100	0	0	0	0	0	0	**540.00**
Opening balance	80.00	90.38	100.77	111.15	21.54	31.92	42.31	52.69	63.08	73.46	13.85	24.23	34.62	45.00	55.38	65.77	76.15	-13.46	-3.08	7.31	17.69	9.23	19.62	30.00	

The variable cash flow of each option is set out in the graph below along with a typical payment schedule as well as an illustration for two customers using the service in Birmingham for remitting monthly payments to the Midlands Electricity - a subsidiary of Npower.



Typical Payment Schedule

Utility 1

Name	Reference	Utility reference	Monthly Payment due £	Payments in Date	Payments in Sum £	Payment £	Date	Months	Total payment due £	Brought forward payments £	Total payments £	Carried forward Balance £
Johnson	JOH0078	MEB189928833		01-Jun	7.50							
				08-Jun	0.00							
				15-Jun	15.00							
			30.00	22-Jun	7.50	30.00	22-Jun	5	150.00	120.00	150.00	0.00
Patel	PAT00195	MEB188989988		01-Jun	7.50							
				08-Jun	7.50							
				15-Jun	0.00							
			30.00	22-Jun	7.50	22.50	22-Jun	5	150.00	100.00	122.50	-27.50

Total payment to Utility 1	52.50

8.2 Financial Projections for Year 0 (Start-up) and Years 1-5 (Long Term)

The financial projections fall into two phases, start-up and long-term, in the CRP model. The pilot period, like with MABS in Ireland, will essentially cover Year 0 and Year 1. However, the robustness of the model will need to be evaluated over a five year period to establish the social enterprise sustainability for CRP as potentially a most attractive and dynamic model whose operating principles might be deployed to meet other non-profit service challenges cost effectively in diverse areas within the social economy.

Clients Assisted

The key assumption in the model is the number of hours needed to advise clients about the Factor Four services. Face-to-face energy advice alone is estimated to take about an hour and, overall, with repeat visits to deal with debts and missed payments, 3.5 hours per client is likely to be needed.

The service will also provide general advice and education on budgeting: a charitable trust or Government grant to cover 10 per cent of time spent on this necessary work has been assumed. It is assumed that this can be renewed annually to cover additional time required to assist service users, particularly those with low skill levels in financial management.

Number of Clients Assisted and Sources of Income

Staff time allocations	%	Number	
General debt and money advice (leaflets, talks etc)	10%		
Energy and debt advice sessions	35%		
Credit union bill payment service referrals	35%		
Management/liaison	20%		
Number of clients			Hrs/client
Clients advised per day (including later repeat visits)		2.5	2.80
(time/client needs to be enough for repeat and follow-up session for a proportion)			
Advice sessions per annum (44 weeks, 70% of available time)		387	
Total clients advised annually (2 advisers)		774	
Wanting advice about energy saving and fuel switching	100%	774	
Needing comprehensive debt advice	33%	255	
Needing help with particular bill	67%	518	
Taking up bill payment facility	25%	193	
Taking up £300 loan offer	5%	39	
Switching utility	60%	464	

Income required per client

Charitable Trust income (general debt and money advice)	10,694

Income

	Fixed element £	Number	Total fixed £	Clients £	Rate per client £	Total client £	Overall total £
Utilities*	3,500	4	14,000	774	18	13,923	27,923
Registered social landlords (RSLs)	1,750	4	7,000	387	18	6,962	13,962
RSLs (Loan Guarantee Fund)	15,000		15,000				
Local authority	3,500	1	3,500	774			
Bank charitable trusts	6,000	1	6,000	387	18	6,962	
Universal bank	4,000	1	4,000				20,462
Net income from multiple debt advice				255	135	34,459	34,459
Totals			**49,500**			**62,305**	**111,805**
						Target	***96,244***

**gas, electricity initially but could later include water, telephone)*

	Fixed element £	Number	Total £	Clients £	Rate per client £	Total client £	Overall total £
Utilities*	5,250	4	21,000	774	5.5	4,254	25,254
Registered social landlords	2,625	4	10,500	387	5.5	2,127	12,627
Local authority	5,250	1	5,250	774	5.5	4,254	
Bank charitable trusts	9,000	1	9,000	387			
Universal bank	6,000	1	6,000				20,250
Net income from multiple debt advice				255	135	34,459	34,459
			51,750			**45,095**	**96,845**
						Target	***96,244***

Income as illustrated above would be sought from utilities, social landlords (for their tenants) and Government sources/charitable trusts for all other clients to meet the remaining 90 per cent. It is proposed this would be in part a fixed sum and additionally a sum per client. Two examples are shown with higher and lower annual Community Reinvestment Partnership subscription rates of £5250 and £3500 for the private sector/local authority and a differential set of rates for charitable RSLs ranging from £2625 to £1750 per year. The lower subscription rates have been used in the main CRP model set out above. Many variations of course between fixed subscription rates annually as paid up supporters of CRP are possible and correspondingly lower or higher, variable client use rates. Clearly here the discussions with initial CRP partners in the three cities are needed to agree a reasonable system of fixed and variable costs to experiment with.

Social Business Case for Registered Social Landlords

A cost-benefit case for social landlords to pay these rates can be made from avoidance of the high costs incurred by landlords when tenants fall into debt through high fuel bills and, in some cases, abandon the home with significant loss of rent to the landlord and increased costs associated with re-letting. The cost to the RSL based on CRP calculations highlighted below should be far less than the debt.

Potential Costs to RSL of Not Providing Advice

		Weeks	Rent £	Total £
Abandonment	Lost rent	6	60	360
	Void repair/decoration costs			500
	Total			860

Other debts leading to rent arrears		Day rate £	Hours	Total £
Cost for initial housing officer visits		163	2	47
Cost of pursuing arrears recovery for 12 months			12	280

Assessment for RSL

- Cost should be justifiable if just 2 tenants are prevented from abandoning their home
- Pilot study should attempt to measure the reduction in adandonments and arrears among those who receive advice and those using the bill payment service.

Bill Payment, Debt Management Service and Small Loan Guarantee Fund

The proposed bill payment service would be operated by a community development finance institution such as a credit union, a community reinvestment trust (e.g. Portsmouth Area Regeneration Trust) or by a new independent service.

There are various options for how this could work. The model outlined here assumes the tenant pays a regular, weekly, sum into their Monergy account. The service will forward payments to the utilities, RSLs and other creditors, bundling payments from various tenants.

For the community development finance institutions (CDFI), there is a transaction cost whenever a member makes a payment into the account and when a bill is paid. Ideally fees will be negotiated with the utilities which will enable the cost of the bill payment service to be met. Fees charged could either be per payment or as a percentage. Fees per transaction might mean quite high charges for each weekly payment and it is likely the utilities will either prefer to have just a monthly payment or agree a percentage fee so that there is the same cost irrespective of how many payments are made. The illustration below shows how a 10 percent fee would operate.

Cost And Income For Bill Payment Service

1.1.1 Percentage of any payment made

	Annual payment	Fee	Total £
Gas	350	10.0%	35.00
Electricity	200	10.0%	20.00
TOTAL	550		55.00

An alternative approach is a fixed fee per payment but this approach is less flexible as it would limit the number of payments that can be made without charges becoming uneconomic.

An alternative approach is a fixed fee per payment, but this approach is less flexible as it would limit the number or payments that can be made without charges becoming uneconomic. Thus as this would discourage users from making as many small payments as they like to aid budgeting, it has not been used as a basis for the model.

It should be pointed out that the CRP model is conservative in its income assumptions as no account has been taken of regular income for payments in respect to Council tax, rent, water and other essential regular bills. The Table below indicates for one user how this additional income annually could make CRP more viable and sustainable.

Potential for Extension of Bill Payment Service in Future

	No./annum	*Fee £*	*Annually £*
Rent (2 weekly)	*26*	*0.20*	*5.20*
Council tax	*10*	*0.40*	*4.00*
Water	*10*	*0.15*	*1.50*
Telephone	*12*	*0.34*	*4.08*
TV license	*1*	*0.34*	*0.34*
Catalogue	*12*	*0.20*	*2.40*
Total			*17.52*

It is assumed that up to 20 percent of clients will leave the service below as the Table below indicates which will clearly discount income growth in the projection accordingly.

Clients Using Service

(based on pilot period with full staffing in year 3 and 155 new clients joining annually)

		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Longterm
New clients		15	25	193	193	193	193	
Clients leaving	20%		3	7	45	74	98	
Total		15	37	223	372	491	586	1160
Income	£	825	2,035	12,264	20,447	26,993	32,230	63,800

Some allowance is made in the model of course for the cost of resolving shortfalls in payment as the CRP staff will be in regular contact with service users and make home visits as necessary to reschedule payments. Beyond the average time allocation per user of 3.5 hours, referrals to the debt advice sub-contractor will be used as needed to overcome intractable financial problems. Thus the model has many recovery mechanisms (unlike commercial bill payment and standard credit union budget systems) designed to help re-establish payments where there is a breakdown but these are not of course fail-safe and for the system to operate, trust and co-operation among all involved within CRP needs to be developed.

Income and Expenditure for a Bill Payment Service

(assuming 620 clients paying in weekly with monthly payments to each utility)

Expenditure

Full time administrator:	£
Salary/NI/pension	15,876
Overhead	8,741
Total	*24,617*

Time budget for one member of staff		Clients	Mins/item	Hours per week
Recording weekly payments from clients		1160	0.4	7.73
Chasing late payments; or referring to adviser	10.0%	116	7	13.53
Scheduling monthly payment for, say, 8 different utilities by client		8	90	3.00
Total hours required				24.27
				£
Staff cost	0.69 full-time equivalent			17,067

Community Finance Body

Annual payments in	60,320			
Minutes per payment*	1	Full-time cost (£)		
Total time required (days)	144			
% full time	0.65	*24,617*		16,034

** these payments into a "number 2 account" should ideally be made when savings are paid into the main account. This low assumption of the time required is also intended to reflect the substantial voluntary input*

Total cost of bill payment service	**33,101**

Income - assuming 10% charge per transaction

Fee per member	*(Proposed to apply only for those paying < 3 bills per annum)*	1,000
Charges to utilities		63,800
Total		**64,800**
Surplus/deficit		31,699

	Total costs	Contribution
Contribution to office set up costs	**50,000**	**20,000**

If the Irish Money Advice and Budgeting System (MABS) were to be copied comprehensively both to pay bills/debts but also to allow for small loans to be available, a guarantee fund would also need to be available to the credit union. As with MABS, this would enable a credit advance to be obtainable up to £300 for a CRP user to meet a short-term need. This micro-lending facility will allow greater flexibility in financial management where there might otherwise be insufficient funds in an account or where the household clearly could be helped by a small loan for a recurrent need such as school clothing, to replace an appliance or to ease Christmas cash flow pressure.

For the credit union or CDFI, this can be treated simply as a lending transaction and charges made accordingly. The guarantee fund has not been assumed in the model but is recommended for consideration as it would not complicate the model significantly, and it would enable credit union or CDFI lending of limited sums to be readily available. Such a guarantee fund might be made available as a grant by the CRP banking partner or by Government.

Setting up a CRP operation with a central office will be costly. An assumption has been made that funders would need to contribute a lump sum towards these set-up costs in each city or regional area and £20,000 has been assumed. It is also assumed that as the pilot develops like that in Scotland and Wales, national development funds for England will emerge to be more strategically deployed to enhance the infrastructure of existing credit unions in respect to staffing, IT, shop front development and central service organisation (CSO) facilities that ABCUL is seeking to secure. Thus CRP must be seen as supplementary and complementary to evolving development work to strengthen the base of credit unions in England.

Affinity Utility Deals and ESC0 Developments by Social Landlords

A number of utilities make one-off incentive payments to customers who switch fuel suppliers. Moreover, at least one in three RSLs interviewed were developing ‘Heat with Rent’ or Energy Services Company (ESCO) type projects. CRP, as a project intended to work strategically with RSLs, cannot ignore these developments.

Scottish Power has been especially active on this front and has set up a novel affinity scheme for RSLs. The RSL signs up void flats with Scottish Power, receiving £15 per utility i.e. £30 if a dual fuel arrangement is made. The incoming tenant then takes over the existing Scottish Power supply when they move in. In a majority of cases such tenants will remain with the company.

The advantage to the RSL lies partly in having power in place during the void period when it may be needed for repair work, for testing or to keep the home moderately heated to avoid frozen pipes. Scottish Power, as part of the service package, also provides a free benefit advice service for the incoming tenant to enable them to assess whether they are claiming all the benefits they are due. The £30 for each household can be spent on minor energy efficiency measures such as low energy lights, radiator shelves, radiator reflectors on outside walls or assistance to the tenant to take up the Fridgesavers scheme. The downside is that Scottish Power is not the cheapest supplier - although they are almost certainly cheaper than the existing regional supplier.

Sustain, a company based in North Somerset, is offering to help RSLs set up a fuel-switching advice service independent of the RSL. This overcomes the problems RSLs may perceive in taking responsibility for nominating a particular supplier. Sustain will arrange for suppliers to be found for different types of supply and for levels of use. However, the difficulty is that the company offering the lowest cost fuel may not also be offering other valuable services (such as those offered by Scottish Power).

A further point is that even if incentive payments are made by a new utility as a result of fuel-switching, it is then arguable whether it is appropriate to use these payments to fund the service rather than using them to benefit the tenant - through energy efficiency measures for example.

No income for fuel switching advice from utilities has been assumed in the model.

Bill Payment Service and Prepayment Meter Transactions

In the early days of developing ideas for Fuelsavers (the original Factor Four service), Birmingham Settlement and Birmingham Credit Union Development Agency commissioned a study by Capital Strategies. This 1994 report, *The Credit Union Bill Paying Service - Business Plan*, includes an analysis of the potential income that could be generated by selling households fuel tokens for prepayment meters as an income-generating service to run alongside a bill paying service.

This additional source of income makes a lot of sense and would be a good business opportunity for credit unions working closely with the CRP as it would provide another income stream and another basis for contact with members. For the strategic development planned in Birmingham, for example, involving six credit union shop-front offices, these additional services will help to make them viable.

The income possible from prepayment meter transactions is not assumed therefore to be an offset to the costs of running the CRP bill payment service. These costs must stand on their own and be paid for accordingly through their own fees and other income as suggested in the model.

However, from the credit union's viewpoint, taking on bill payment in partnership with CRP may bring in more potential member savers, may provide lending opportunities and also may provide an opportunity for offering other services such as prepayment transaction sales. Such additional income sources connected to the pull of the Factor Four model as evidenced from the national Omnibus survey can act as a strong incentive for more credit unions to participate in the delivery of CRP as it develops. In Birmingham, where many credit unions could become involved, this mutual benefit can be tested in practice.

In this regard, the objective of the CRP model is to transparently set out the costs and social enterprise recovery mechanisms for the delivery of the Factor Four integrated service. Thus CRP should be seen as a facilitative social enterprise to reduce financial services exclusion - hence the importance once again of the partnership aspects.

While prepayment meter cash transactions stand out as one of the other services that a credit union might well consider in its own business plan, the viability of such a service will depend on a credit union's geography and other PayZone or PayPoint outlets in the same area. Equally, the overall business plan for any credit union will depend for success on putting together cost effectively its core savings and lending business with other ancillary financial services (e.g. household insurance, agency services) that might be provided. In this context, to attract new customers it may be deemed worthwhile to handle prepayment meter transactions. But the cost-benefit equation here is finely balanced and will need careful consideration in each situation.

8.3 Summary: Initial Development Grant Required and Up-Front Investment

The service will need to be run on a trial basis with just 60 people advised in Year 0 and 387 in Year 1 as the service is developed in the pilot period.

A second adviser would be employed in Year 1 and the service would be launched in full. The model projects that a Community Reinvestment Partnership can recover its costs and be self-financing as a social enterprise by the end of Year 5.

Additional consultancy support will be needed in the first two years which is estimated at £15,000 for software development costs and £58,000 as central costs for all three sites to be supported centrally in respect to training, pilot support, a mutual learning network, information co-ordination and development support. Lastly, a £15,000 loan guarantee fund @ £5,000 per site is sought to support the micro-loans in the fashion of MABS in Ireland.

Three separate development grants of £130,820 (including the capital grant of £20,000) over the first four years will be needed for Birmingham, Portsmouth and Liverpool in addition to the charitable grant for advice, and the CRP annual subscriptions proposed for RSLs, the local authority, the Post Office Ltd., relevant Bank charitable trust sponsors and the utilities. The Summary of Income and Expenditure projects for Years 0 through Year 3 is set out below along with the grant requirements for the full period until social enterprise sustainability is secured.

Summary of Income and Initial Development Grant Required

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Long term
Clients advised	60	387	774	774	774	774	774
Clients in bill payment service	15	37	223	372	491	586	1160
	£	£	£	£	£	£	£
Inflation		3.00%	3.00%	3.00%	3.00%	3.00%	Current Prices
Expenditure							
Energy and debt advice service	63,480	110,145	113,450	116,853	120,359	123,970	106,937
Bill payment administration			11,589	24,234	24,961	25,710	33,101
Office set up costs	20,000						
Total	83,480	110,145	125,038	141,087	145,320	149,680	140,038

Income

Charitable income (advice)	10,694	11,015	11,345	11,685	12,036	12,397		10,694
Utilities - payment fees	825	2,096	13,010	22,342	30,381	37,363		63,800
Utilities - service membership[1]	7,270	17,985	29,624	30,512	31,428	32,370		27,923
RSLs - service membership[2]	3,635	8,993	14,812	15,256	15,714	16,185		13,962
RSLs - Loan Guarantee Fund	15,000							
Local authority	3,500	3,605	3,713	3,825	3,939	4,057		3,500
Bank charitable trusts	6,135	9,765	13,751	14,163	14,588	15,026		12,962
Post Office Ltd	4,000	4,120	4,244	4,371	4,502	4,637		4,000
Income from multiple debt advice	668	1,698	10,538	18,097	24,608	30,264		34,459
Grant for office set up costs	20,000							
Development grant	***26,753***	***103,830***	***0***	***0***	***0***	***0***	***130,583***	
Total	98,480	163,107	101,037	120,252	137,196	152,301		171,299
Surplus/deficit	***15,000***	***52,961***	***-24,002***	***-20,835***	***-8,124***	***2,621***		**31,261**
Less contribution to LGF	15,000							
Surplus carried forward	**0**	**52,961**	**28,959**	**8,124**	**0**	**2,621**		

				Total grant
Grant required for 3 sites	***80,259***	***311,490***		***391,749***
Development costs :				
NEF Co-ordinating role	*24,000*	*24,000*	*Note: paid in year 0*	***48,000***
Software development costs	*15,000*			***60,000***
Loan guarantee fund	*15,000*			
Mutual learning network	*10,000*			
Central administration	*5,000*	*5,000*	*Note: paid in year 0*	
NEA fuel-savers training	*10,000*			
Subtotal	***108,000***			
Less RSLs contribution to LGF	*-15,000*			
Total	**173,259**	**311,490**		**484,749**

1. assumes 2 utilities in year 0, 3 in year 1, 4 in year 2
2. assumes 3 RSLs in year 0, 3 in year 1, 4 in year 2

Summary: project should break even in 6 years. The right hand column shows that the long term, with 1160 clients in the bill payment service, there would be scope for reducing charges or increasing the time available to each client. If an assumption of 2 clients/day is made instead of 3, the service just breaks even on these assumptions.

9. Conclusion: Main Findings, Recommendations and Next Steps

Financial exclusion is costly. Those without access to financial services pay more, sometimes much more, for essential services such as rent, water, energy or the telephone. Financial exclusion is also costly to providers of essential services in respect to billing, arrears chasing and debt recovery when serious payment problems develop. Sadly, when this happens, there is often recourse to money lenders, pay-day lenders and other down-market creditors charging 100 to 500 percent APR. This frequently exacerbates the situation and leads to debt traps and vicious circles of impoverishment.

Factor Four services to integrate bill payment, budgeting advice, energy advice and debt advice can tackle this dangerous syndrome and address both financial exclusion and fuel poverty. The original idea for Factor Four services was developed by the Fuelsavers project at Birmingham Settlement in the early 1990s. This approach has been advocated by National Energy Action and the Fuelsavers Alliance of Energy Advice Agencies in the past, but never implemented strategically.

In Ireland, services to tackle debt problems in preventive ways, such as the Money Advice Budgeting Service, show the potential for credit unions and community finance development institutions to replicate this work. Equally, specific services for tackling financial exclusion have been developed by Community Development Credit Unions in the USA. These indicate the scope for Factor Four services to develop widely in the UK if supported in the right way with a social enterprise approach.

The main findings of this investigation highlight:

(i) 4 per cent of British households are very interested in a full Factor Four service and 18 per cent of British households are fairly interested – this represents a national market of between 2 million and 3.6 million.

(ii) The potential to integrate energy advice with money advice as 'Fuelsavers' advice has been demonstrated by Birmingham Settlement and can be applied in a national pilot.

(iii) Credit unions in the USA and Ireland have demonstrated ways to offer attractive bill payment and debt repayment services to meet the needs of low-income households and also to offer additional access to savings and small loan facilities at affordable rates.

(iv) Credit unions in Britain are keen to develop bill payment services and there are several examples of emerging good practice.

(v) There is strong support, from a wide range of service providers to low-income households, for Factor Four services - including energy companies, housing associations and registered social landlords, water companies, energy advice agencies and the Post Office Ltd.

(vi) Factor Four services are also attractive to money advice and energy advice bodies and the scope for partnership with such agencies is strong.

(vii) Financial modeling of a Factor Four service indicates the potential to recover operational cost through Corporate subscriptions and money handling payments to a Community Reinvestment Partnership from local authorities, utilities, landlords and other service providers to low income households.

(viii) Credit Unions in Birmingham and Liverpool and Portsmouth Area Regeneration Trust (PART) are positively supportive of the Community Reinvestment Partnership model developed and the local market demand estimates for each pilot area in respect to Factor Four range from 6,375 households in south Liverpool to 11,700 households in Portsmouth and to 20,380 households in inner city Birmingham.

(ix) Initial target households based on the feasibility findings include: existing credit union and community reinvestment trust members (e.g. PART), households headed by people under 50, one and two-parent families, households with only one earner, homeowners with a mortgage and private sector tenants.

(x) There is considerable scope for Factor Four services to be integrated beyond any pilot period into the partnership arrangements by the banks and the Post Office Ltd. for the Universal Banking Service. Thus through Community Reinvestment Partnership, credit unions or community reinvestment trusts can complement and supplement measures to reduce financial exclusion offered by Introductory Bank Accounts and the Post Office Card Account.

The Business Plan demonstrates the potential of the Factor Four service and Community Reinvestment Partnership to deliver effective services. However, the fieldwork highlights the weaknesses of community credit unions and the need for strategic investment by Government to establish more robust credit unions based on ‘live or work’ common bonds. Guidance on how to target such investment in ways that leads to social enterprise success and avoids grant dependency has been highlighted by earlier research by New Economics Foundation (1997) and John Moore’s University (1999 and 2001).

Such strategic interventions by Government is underway now in both Scotland and Wales through credit union growth funds that provide time-limited or targeted grants for paid staff, IT and shop- front development. Such programmes are not yet under development in England and this is somewhat anomalous since the DTI Phoenix Fund provides subsidies for Community Development Finance Institutions to deliver enterprise finance but there is no parallel funding for Credit Unions to reduce financial exclusion more widely. This policy and programme gap needs to be tackled and it is recommended that any private sector funding secured for Factor Four should be matched by Government funding to strengthen the credit union infrastructure in the three pilot areas proposed. In England, Credit Union Growth Funds should be established, with leadership from the DTI, to bring into line the policy and practices here with Scotland and Wales.

Additionally, the banks drew attention to an apparent inconsistency in Government regulatory practice whereby the Treasury and FSA look to banks to develop equitable financial services for cash payers whilst, within the energy industry, differential pricing is common. This inconsistency was questioned by some of the banks who are concerned that they are being asked to cross-subsidize customers who are not profitable. Thus it was seen as desirable that the reduction of energy price differentials between credit meters and prepayment meters should be prioritised so that different ‘pay as you go’ mechanisms - credit union bill payment, introductory bank accounts and prepayment meters - are not distinguished by price, but rather by consumer choice.

In conclusion, the market and feasibility of a Factor Four service is clear from the evidence of significant demand. Additionally, the Business Plan draws upon similar existing services, such as the Money Advice Budgeting Service in Ireland, which indicate that operational delivery is also feasible. Therefore the case for a pilot study is strong and funding should be secured to test Community Reinvestment Partnership in Birmingham, Portsmouth and Liverpool.

Additionally, a rural pilot might be considered and the project fieldwork has attracted interest from the South West of England in North Somerset and West Dorset among rural credit unions and the developers of the Wessex Reinvestment Trust which is supported by the Countryside Agency and the Housing Corporation. In light of the acute rural poverty problems which have become more acute in the wake of the Foot and Mouth crisis in 2001, a rural fourth pilot might be considered to follow on in the South West from April 2003.

Subject to consultation with potential partners of Community Reinvestment Partnership in the three cities, the urban pilot work should commence from April 2002.

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APPENDICES

Appendix 1: Ending Fuel Poverty – a Factor Four Approach: Terms of Reference

The exploratory study by National Energy Action and New Economics Foundation into affordable payment systems operated by community finance institutions (CFIs) in Britain confirms that:-

- CFIs such as credit unions and community reinvestment trusts are emerging as social enterprises that can deliver access to affordable financial services locally;
- Credit unions in Britain are already offering bill payment services and recent experience in offering low-cost energy efficiency loans has been positive;
- Credit union work in Ireland and the USA to provide services for budgeting assistance, debt advice, bill repayment and electronic transfer of benefits indicates the scope for similar services to be developed in Britain;
- In the wake of the Government's Social Exclusion Unit's National Strategy for Neighbourhood Renewal (2000), there is a favourable policy environment for practical initiatives to reduce exclusion from financial and energy services. Indeed, there is much good will in both the banking and utilities sectors to lend expertise and to provide other resources to reduce debt problems, self-disconnection and the multi-deprivation faced by the fuel poor.

1. Project Aim

The aim of the proposed market feasibility and business planning exercise is to design a robust, affordable payments delivery system for a national pilot, which will integrate:

- Budgeting assistance
- Debt and money advice
- Energy bill payment and debt repayment
- Energy advice
- Fuel supplier guidance
- Take-up of Warm Front and other grant assistance

2. Project Objectives

The following objectives will be met during the course of the work:

(i) To ensure that the service is designed to target the needs of those households without banking services and with high-cost existing payment arrangements.

(ii) To examine the scope for working with other initiatives with local access points like the Universal Banking Service or with the potential to add value (e.g. Warm Front installers and home improvement agencies).

(iii) To examine the operation of similar bill payment and money transmission services in both Ireland and New York.

(iv) To test the feasibility of the service in the proposed three trial sites in England (Liverpool, Birmingham and Portsmouth) through a large national sampling exercise and through local focus groups.

(v) To complete a full five-year Business Plan covering the needs of a specific regional site, and also to examine shared economies through a common back-office facility, which may be outsourced (e.g. the Credit Union Services Organisation, a banking partner, or another provider).

Outcomes

The expected outcomes will be:

- A reduction in the number of households using prepayment meters;
- An increase in the number of low-income households accessing cheaper tariffs;
- Integration of money advice, energy saving advice, grant schemes, and payment schemes directed at low-income households;
- A reduction in the number of energy consumers in debt;
- A contribution towards Ofgem's social action targets;
- A reduction in the number of households in fuel poverty.

3. Methods and Research Team

The project will deploy both quantitative and qualitative methods in the course of their investigations. The three research partners are National Energy Action (NEA), the New Economics Foundation (NEF), and the Personal Finance Research Centre (PFRC) at the University of Bristol. The lead agency will be NEA, which will take responsibility for grant administration, liaison with funders and arrangements for any launch of the final report. The project research work will be done in close collaboration and the lead agency heading the research will be NEF.

The project falls into two discrete parts: market feasibility aspects and business planning. PFRC will take lead responsibility for the former and NEF/NEA will focus on the latter with NEF taking the lead.

Appendix 2: Financial Literacy Programmes – USA and Britain

In both Britain and the USA, financial literacy programmes have been promoted in schools and, more specifically, through targeted programmes to assess such services for adults. A recent report by the National Association of Citizens Advice Bureaux highlights the diversity in England and Wales of more than 60 community-based financial literacy initiatives developed by individual Citizens Advice Bureaux (Lord, 2001). Other initiatives funded by the banks through the Personal Finance Education Group are in operation.

Another approach that has been successful in the USA and Ireland seeks to link financial literacy to mechanisms to promote savings among low and moderate-income households. In this area, credit unions have been found to be excellent delivery vehicles and Community Reinvestment Partnerships in Britain can learn some valuable lessons for Factor Four.

A particular successful mechanism used by both American and Irish credit unions has involved incentivised savings programmes for asset development among low-income households. Such special savings accounts encourage households to save tax-free for a period of two or more years and the sum saved is then matched by a similar or greater sum through Government subsidy. In the United States these accounts are called Individual Development Accounts and the subsidy provided is for a specific development goal such as home purchase, business start up or business expansion and, additionally, for further education or vocational qualifications.

For the work of Community Reinvestment Partnerships and Factor Four advice services, these programmes are of both policy and practical interest because of the way the financial service (i.e. in this case savings) is linked to a subsidised advice and education service. Most importantly, the subsidy is tailored to achieve diverse social and economic goals (e.g. business start up or home purchase). This model, linking goals to practical advice, provides an example of how Factor Four money and energy advice services can be linked to both money management and home improvements.

CDCU Individual Development Accounts and Financial Literacy Programmes

The main savings products available from the New York CDCUs interviewed include:

- Savings accounts with easy access and an attractive interest rate of 2 per cent;
- Individual retirement accounts at a tax free rate of 4.5 per cent;
- Children's accounts – promoted widely in partnership with local schools;
- Higher-rate savings accounts and savings bonds at 5-6 per cent (for larger minimum balances);
- Individual Development Accounts.

The CDCUs in New York, with assistance from NFCDCU, have built up reasonable reserves in the past five years and at a competitive 2 per cent rate can attract savers locally. This enhances the financial viability of the credit union.

The CDCU Individual Development Account (IDA) as an incentivised Government-supported savings programme seeks to achieve a range of development goals with the low-income credit union member over a 2-4 year period. Approved goals include higher education courses, home purchase, business start up and home repairs. The IDA saver agrees a goal linked to their own forward plans and agrees a saving amount monthly of $25 to $75. The programme requires that, once agreed, a consistent saving level should be maintained and that the saver takes an approved course in money management skills with modules related to their goal (such as business preparation, house purchase,). The main goal of the Government programme is to enhance asset development in low-income neighbourhoods.

If the savings plan is maintained, and the evening classes in money education completed, the saving sum will be matched by a CDCU grant of 100 to 200 per cent at the end of the savings period and completion of the credit union member's course. IDA savings and matching funds can then be released to finance the development goal. The IDA programme has been both popular and successful among CDCU members nationally. The main constraint on development has been insufficient matched funding resulting in a great deal of work on the part of CDCU programme managers to raise the matching grant funds from local authority, foundation and regeneration programmes. The American experience here is particularly pertinent to the UK as the Government has announced the introduction of a similar incentivised Savings Gateway programme and the Government's think tank, the Institute for Public Policy Research, is currently researching IDA- type products.

Right across the USA, IDA financial literacy and money education programmes, particularly those developed by Bethex FCU; Alternatives FCU; Santa Cruz Community Credit Union in California; Faith Community United Credit Union in Cleveland; Progressive Neighborhood FCU in Rochester, New York; and Appalachian Development FCU in Ohio are impressive and comprehensive. The IDA is a comparatively recent innovation in the USA and, in due course, it is hoped that more resources for the matched funding element will be found to allow expansion of the financial literacy service.

Individual Learning Accounts and the Savings Gateway – British Programmes

David Blunkett, when Secretary of State at the Department for Education and Skills (DFES), strove to develop a strong programme to address the issues of financial literacy. With his successor at DFES, Estelle Morris, this ambition is now being implemented on a pilot basis under the Community Finance & Learning Initiative. This will trial different approaches nationally in England to promote financial education through specific links with community projects, credit unions and initiatives like CRP.

The Government's Savings Gateway will test ways to incentivise savings as the Individual Savings Account mechanism has not proven attractive low-income households. According to the IPPR Centre for Asset-Based Welfare, 31 percent of the bottom 10 percent of households have no assets at all and of those aged 20 to 34, those with no assets doubled from 10 to 20 percent between 1979 and 1996 (IPPR, 2001)

The Government has taken a strong interest in the successful American experience with Individual Development Accounts, and the Institute for Public Policy Research (Regan, 2001) is developing a framework from which IDAs are expected to be introduced in 2004. The cornerstone of the Treasury's initiative is to ensure that the Savings Gateway incentivises low-income earners and households to save through the Child Trust Fund with its 'baby-bond' and other matched savings contributions from Government.

A UK IDA programme could build on the experience of Individual Learning Accounts. Both Riverside Credit Union and the Scarman Trust, working in partnership, have successfully promoted the take-up of over 5000 ILAs among low and moderate-income households in Liverpool. As a result, the Scarman Trust and Riverside Credit Union have been in discussion with both the Treasury and civil servants at the DFES developing the Community Finance & Learning Initiative pilots from April 2002. The American experience showing how CDCUs have promoted so effectively IDAs in a targeted way illustrates well how important Community Finance bodies can be as delivery vehicles for future financial literacy, money management and new savings initiatives that the British Government is so keen to get right.

Additionally in Birmingham, the Birmingham Settlement National Money Advice Training Unit, with funding from Barclays Bank, will be piloting a financial literacy programme during 2002-2003 called

'Making Sense of Your Money'. This service will be developed in a partnership with Birmingham Credit Union Development Agency, the Ladywood Credit Union and Birmingham Age Concern. Thus, in Liverpool and Birmingham, financial literacy programmes are underway which could complement and supplement the work of Community Reinvestment Partnership during its own pilot period. The American CDCU experience indicates how such programmes can be integrated successfully.

Similarly in Ireland, incentivised savings schemes promoted by credit unions have helped stimulate savings among low-income households in ways where other Government approaches have failed.

Appendix 3: IT Requirements Study – Malcolm Thomas Computer Solutions

Guidance on information technology needs for the Community Reinvestment Partnership to operate during and beyond the pilot period was contracted from Malcolm Thomas, a specialist consultant working to provide IT systems to credit unions in Britain. This is set out below:

In order to specify a system that will be able to manage the various aspects of the pilots electronically, it is necessary to analyse the IT specific requirements in a slightly different manner to those described in the Community Reinvestment Partnership model.

The Service pilot can be broken down into various logical areas - each with its own identifiable needs and expected result yields. By listing those needs and expectations in order, a picture can be drawn of the collective requirements of the project, and thus a canvas created which will encapsulate the perceived needs of the entire IT suite. This in turn can be used as a 'broad-brush model' to prioritise and order the subsequent development of a management information system (MIS) which will need to be developed with one eye on the need to adapt to the changes that will inevitably be encountered as real life experience is accumulated during the pilot and development period.

Phase 1: Debt Repayment and Rescheduling – Initial Assessment

Following the initial fact-find, it is possible that the client will currently have one or several existing debts that are identified as the primary targets that need to be addressed. Although it may be useful to retain rudimentary information at this stage (Name, Address, Summary, Notes, etc), it is considered that such information can be managed using existing tools (for example the Microsoft Office suite) for such retention. It may be useful however to consider designing some basic Spreadsheet templates for general use in this aspect, but given its very individual nature, it is difficult to surmise what other common tools should be available.

Phase 2: Service and Supplier Review

This area perhaps offers a more logical first point of entry for client information. Given its relatively predictable format, client details, income levels, current providers and periodic bill levels (expected and actual) could be recorded. This data will yield valuable statistical information for analysis of income spread, provider usage etc, and provide the capability to detect common features which in turn may be used to give 'strength in numbers' opportunities to the participant group in each Community Reinvestment Partnership (CRP) pilot.

While this area alone is quite complex, given the correct amount of investigation and regular input from the CRP staff and payees signed up to the service, this tool in itself could become extremely valuable as the client base (and therefore the financial muscle) increases, and help serve to amplify awareness of competition at a commercial level.

It would of course be particularly useful to have the capability to electronically retrieve and store various payee tariffs on a regular basis (either by direct connection, Email, WWW, FTP or simple data exchange) for immediate on-screen comparison, and regular monitoring. Having investigated this particular area quite carefully, one web site (www.uswitch.com) already appears to have compiled a good collection of impartial information, and produce a user friendly, on-screen calculator that shows not only price comparisons by postcode, but also provides level of service and useful statistics. It is reported that uSwitch Ltd. has recently received accreditation from OFGEM for its work, and general press reviews are positive about service offerings.

Phase 3: Future Bill Budgeting

From the experience of the MABS program in Ireland, much information can be drawn in this phase.

The four main objectives for the MABS program are defined as follows:

1. To store basic client data;

2. To administer budget accounts for these clients;

3. To provide a range of statistical data for each local MABS and their funders;

4. To account for a loan guarantee facility, which is available for some clients to access small credit union loans.

The program is designed for use on a small Local Area Network, although it has only been operated on a stand-alone basis to date. In the future, MABS Ireland intend to implement a system that will collate the local statistics into a national database. The plan is that each office will send their local data to a central point using e-mail attachments for processing and analysis. Another improvement is to introduce the facility to make payments to creditors by EFT/BACS.

Apart from the budget-specific data requirements, the specifications and aspirations described above coincide well with the future plans of Credit Unions in Britain - particularly as the new regulatory regime of the FSA begins to influence the future shape of the movement.

In order to maintain a successful bill payment scheme, it is necessary that money be paid in on a regular basis in order to fund the targeted bills when they become payable. When the bill is due, the required money is withdrawn and used to fund it - the principle is simple.

To achieve this, the software application will ideally contain some form of 'front-end' ready- reckoner enabling entry of multiple bill types, frequency of payment, expected due dates, and estimated values for the year. The calculator will be programmed with a formula that will take all of these variants into account and come up with a regular monthly payment that ensures that relevant funds will be available as and when required.

For the Factor Four service customer and other service user (e.g. the Benefits Agency), the application should be capable of accepting receipts from an array of different sources (i.e. counter cash payments, standing orders, file transfer (between unlike source applications), ACT Benefit payments etc). A simple user interface should be presented that provides easy access to the operator to update members' account information including 'state of play' representation and guidance to assist in ongoing adjustments to income/expenditure strategies, and account reporting features including ad-hoc statement production which should be available at all times.

The 'back office' portion should include automated procedures to assist with client account monitoring. Credit control facilities will be of paramount importance. A cash flow Forecast should be available and, to minimise overheads, bill settlements should ideally be made collectively (and electronically in the longer term) under a single cover on behalf of participating customers. This in turn implies a close relationship with the payee companies who will benefit from the scheme in return.

Given the different circumstances and backgrounds of the pilot project candidates, and the various methods of fund collection, it is recommended that the application be developed as an autonomous product in the first instance. However, as the pilot becomes established, it is expected that its integration into existing credit union software will be feasible by utilising a second saving account for the member that is only capable of receiving payments in. Funds in the second saving account would be used solely to fund expenditure through the bill payment system and the capability to transfer funds directly from Number 1 to Number 2 accounts (but not the other way) will add to its versatility while reducing the learning curve for its operators.

As indicated above, it is envisaged that the software will be capable of receiving income from ACT benefit payments as and when they are introduced. This will of course require integration with existing and emerging electronic money clearance systems whose characteristics have yet to be properly defined. Given that they will operate in a similar manner to current standards, integration will be quite straightforward, but it should be noted that at its inception those standards will be hitherto unknown and therefore should be monitored closely by the software provider.

Phase 4: Save/Borrow – Credit Union

The aims of the project are to encourage clients to manage their money and to budget for irregular bill payments. However, once this has been achieved, then the next logical step would be membership of the credit union proper.

There are already several established and recognised credit union software programs available on the market, each one capable of data exchange connectivity given additional development by its provider. Some of those applications including Curtains for Windows and Fern Systems' 'Cubis' already have some bill payment facilities built into them and should conform closely to the perceived needs of the project.

By defining file protocols and parameters carefully, and adding such functionality to those programs, it will be possible to exchange information with whatever IT system is developed to manage the CRP Factor Four project.

Electronic data exchange and/or file transfer protocols will need to be agreed with candidate software providers, to ensure that their bill payment function can be maintained with additional functionality, to enable controlled exchange of information between the dissimilar applications. When those protocols are established, it will be possible to freely exchange information with new applications as and when they become involved.

Ultimately of course it is quite feasible to integrate credit union software fully with the project's aims, but given that this is not currently considered a part of the credit union movement's remit, together with the fact that the project itself - not to mention the software vehicle has yet to be defined and technically specified, it is considered that it is too early to embark on such a project - unless it was decided to build the project system on to an existing credit union software suite.

If this method were employed, then the 'client' details would already be on file as a result of the preceding steps, and a simple switch would determine their credit union affiliation. Furthermore, this would open up the possibilities of transferring funds between share and budget accounts as described above.

Hardware / Network Requirements

As already described, the MABS project software has been designed for use on small Local Area Networks. This would need to be the case for the UK project too. In order to run an effective network, it will be necessary to install a Novell, Microsoft Windows NT, Windows 2000 or Citrix Server at each CRP Project Management Office providing shared access to the application software. Integral backup devices will need to be installed, and remote dial-up access will need to be available to deal with software updates and maintenance during the pilot development phase.

Cabling will need installing (if it is not already on site and to the required standard) to enable high-speed fault tolerant connectivity, and web and email access will need to be available for the duration.

Having reviewed the equipment currently available at the proposed pilot site offices, it would appear that the existing peripheral equipment is more than adequate to deal with the additional load that is envisaged. Furthermore, it should be noted that software training will be minimised by the level of experience with credit union software available at those offices.

Software Requirements

This will of course depend largely on the program that is chosen as the development vehicle. However, given the equipment currently available at the pilot site offices, by definition that software will need to be Windows 9x / NT / 2000 compatible. Each of the offices already uses Microsoft Office suite, so the major expenditure will be governed by the hardware resource shown above.

Staffing Levels

In the short term, it is envisaged that a minimal extra load will be placed on the current resource, but of course, as the project rolls out it will be necessary to have at least one dedicated member of IT staff per site.

Hardware Budget

1 x File Server

Minimum specification

256MB RAM	
10GB Hard Disk	
On-board Backup Device	
Uninterruptible Power Supply	£2000.00 per site
1 x Network 10/100 Switch	£300.00 per site
1 x Shared Modem	
External ISDN/Modem	£350.00 per site
1 x Laser Printer	
HP Laser 4100 or better	£900.00 per site

Network Installation Budget

Operating System installation/configuration	£2500.00 per site
Associated cabling will need to be installed at each site	£600.00 per site

Network Services Budget

ISP services to host email and web access	£300.00 per quarter/site

Software Budget

Network Operating System	£1200.00 per site
Modem Sharing Software	£300.00 per site
Remote Access Software	£100.00 per site

The cost of the *tailored* software for management of the project will be better judged when a final specification is agreed. However, for budgetary purposes, it would be reasonable to allow up to £15,000 for its design and implementation. This cost will of course be steered largely by the method of implementation (i.e. build on existing software or develop from new).

Totals

	Hardware	**Network Install**	**Network Services**	**Software**	**Site Total**
B'ham Admin	3550.00	3100.00	1200.00	1600.00	9450.00
B'ham 2*	1550.00	600.00	1200.00	400.00	3750.00
B'ham 3*	1550.00	600.00	1200.00	400.00	3750.00
Liverpool	3550.00	3100.00	1200.00	1600.00	9450.00
P'mth PART	3550.00	3100.00	1200.00	1600.00	9450.00
P'mth 2*	1550.00	600.00	1200.00	400.00	3750.00

Grand Total exclusive of software development costs £34,600.00

* Assumes pier-to-pier network will suffice at non-administration sites utilising existing equipment. Add £900.00 per new terminal where appropriate.

Appendix 4: Legal Guidance from Wrigleys Solicitors

The following legal expertise on Community Reinvestment Partnership was commissioned from Malcolm Lynch, Partner in Wrigleys Solicitors, Leeds. He is known to the Financial Services Authority, the Association of British Credit Unions, the DTI and the Treasury as a national expert on both Credit Union law and Industrial and Provident Society law in respect to both social enterprises and community development finance institutions. His legal opinion on Community Reinvestment Partnership delivery through either credit unions or community development finance institutions like PART, registered as Industrial and Provident Societies for Community Benefit, is as follows:

Credit Unions

1. Does the Credit Unions Act give Credit Unions the power to operate a Bill Paying Service or would it fall outside the scope of the activities a Credit Union is legally entitled to provide under the Act?

1.1 It is necessary to look at this as it stands currently and as it is proposed to be from 1st July 2002.

1.2 Current Position

There are two aspects to this question; firstly is the Bill Paying Service a reasonable task for a Credit Union to undertake within the objects contemplated by the Act and, secondly, is the service restricted by the Act or other legislation in any way.

The first part is clear. There is no impediment in principle to a Credit Union providing this type of service. Section 1(3) of the Act, which sets out the objects which Credit Unions must have, include as goals:

(c) the use and control of member's savings for their mutual benefit;

(d) training and education of the members in the wise use of money and of the management of their financial affairs.

It is reasonable to argue that setting up the Scheme would advance these fundamental objects both by educating and assisting members in the management of their finances and by using the resources of the Credit Union to assist in the better control of member's savings for their mutual benefit by accessing facilities which will improve thrift in the purchase of services. The Credit Union Bill Paying Service - Business Plan indicates the cost savings which might arise for members of Credit Unions if they use a Bill Paying Service for the purchase of utilities.

1.3 The Act clearly contemplates that Credit Unions will provide only a limited range of services which will be subject to regulation from the 1 December 2001 by the Financial Services Authority. The Registry and the FSA have taken the position that it is legitimate for these services to be provided and have not challenged Credit Unions on them.

1.4 Section 8(1) of the Act absolutely prohibits the taking of deposits except by way of subscription for shares. This raises the questions of whether monies paid to a Credit Union for discharge of bills is to be looked at as a deposit by way of subscription for its shares; a prohibited deposit; or a deposit which is not caught by Section 8(2) of the Act.

1.5 There is nothing to stop a Credit Union from accepting a deposit by way of shares and for those monies to be used to discharge bills to be paid.

1.6 The definition of a deposit is set out in Section 8(2) of the Act. It is a sum of money paid on terms:

(a) under which it will be repaid with or without interest or at a premium and either on demand or at a time or in circumstances agreed by or on behalf of the person making the payment and the Credit Union; and

(b) which are not referable to the provision of property or services or to be given as security.

Section 8(2)(a) would be satisfied by monies paid to a Credit Union for the purpose of a Bill Paying Service. However, the second element sub-section 8(2)(b) is not satisfied and therefore monies which are not accepted as shares would not be a prohibited deposit.

1.7 Section 8(3) sets out a definition for money which is paid on terms which are referable to the provision of property or services or to the giving of security. This is only the case if:

(a) it is paid by way of advance or part-payment for the sale, hire or other provision of property or services of any kind and is repayable only in the event that the property or services is or are not sold, hired or otherwise provided; or

(b) it is paid by way of security for the provision of property or services of any kind provided or to be provided by the Credit Union; or

(c) it is paid by way of security for the delivery up or return of any property whether in a particular state of repair or otherwise.

Section 8(3)(b) covers a Bill Paying Service since monies are paid by way of security for the services, namely a Bill Paying Service, provided or to be provided by the Credit Union.

1.8 Accordingly, the current position is that a Bill Paying Service may be offered from a Share Account or by a separate bill payment account which is a deposit account for a Bill Payment Service.

1.9 It will be important, however, that the Bill Paying Scheme does not permit the member to be overdrawn either on their share account or on the bill paying deposit account unless it would be met by monies in the Share Account or can be treated as a loan. Section 7(5) (b) of the Act requires that "if a withdrawal of shares would reduce the members paid up shareholding to less than his total liability (including contingent liability to the Credit Union) whether as borrower, guarantor or otherwise, then:

(a) in the case of a non-qualifying member the withdrawal should not be permitted; and

(b) in any other case the withdrawal should only be permitted at the discretion of the Committee.

2. It is not possible for a Bill Paying Service to be operated by a separate company limited by shares with the Credit Union as its shareholder since Section 26 of the Act prohibits subsidiaries of Credit Unions.

3. Charging for Bill Payment Service

3.1 The Credit Unions Act is an Act which facilitates registration under the Industrial & Provident Societies Act 1965. If a body fulfils criteria set out in the Credit Unions Act then it may be registered as an Industrial & Provident Society. The Credit Unions Act sets out a number of restrictions which permits a society with particular objects and other criteria set out in its rules to register as an Industrial & Provident Society. There are limited references to the powers of Credit Unions in the Credit Unions Act and whether a Credit Union is permitted to make a charge for a Bill Paying Service will depend on the rules of the Credit Union. The rules of a Credit Union normally make provision for it to have ‘all powers which are necessary to enable it to fulfil its objects’. They are wide enough to permit a request for the payment of expenses and fees and provide authority for the Credit Union to make appropriate charges. This is, of course, subject to the pre-condition that the charges are reasonable and necessary for the pursuit of the Credit Union's objects. The FSA however takes the view that Credit Unions do not have the power to levy charges in this way but this has not been challenged in the courts.

3.2 Credit Unions are for similar reasons permitted to receive agency fees or commissions provided that they are in furtherance of the Credit Union's objects.

4. Future Provision

The FSA takes the view that Credit Unions are not permitted under current legislation to charge for bill payment facilities and this has hampered development. It is a moot point whether the FSA have interpreted the Credit Union Act correctly in suggesting that Credit Unions currently do not have the power to make such charges. However, from 1st July 2002 any defect in interpretation by the FSA or in the legislation itself will be remedied by proposals to provide for a specific power to charge on a cost recovery basis.

Proposals for this are contained within a Consultation Document issued by HM Treasury in October 2001 which supports amendments to the Act.

5. Would VAT arise on the service provided by the Bill Paying Service or on the Agency Fees received by the Utilities?

5.1 There should be no VAT due from the Scheme's members or chargeable by the Credit Union in respect of the basic services supplied. This is because the services are within Schedule 9 Group 5 of the VAT Act 1994.

5.2 The VAT position in relation to the charges levied by the Scheme on utilities is less clear. Although Schedule 9 Group 5 exempts the making of arrangements for the handling of money, Article 13(d) of the EC Sixth Directive upon which it is based covers three transactions including negotiation concerning deposit and current accounts, payments transferred, debts, cheques and other negotiable instruments but excluding debt collecting and factoring. If the Credit Union is supplying a service of debt collection to the Utility Company the Credit Union must charge VAT on the service it is supplying to the Utility Company.

6. Corporation Tax Position

The Credit Union's income from the loan interest is not normally taxable, but profits from other trades would be taxable.

Industrial & Provident Societies

1. An Industrial & Provident Society may operate a Bill Payment Service provided that it has objects and powers to permit it to do so.

The ultra vires rules applies to Industrial & Provident Societies so that it is outside the powers of a society to do anything which is not contained within its rules. The society should therefore check its rules prior to undertaking such a service.

2. It is an important question as to whether an Industrial & Provident Society may only have a Bill Payment Service paid through subscriptions for shares in the capital of the Society or by way of deposit.

A member's share capital account could be used for a Bill Payment Service in an Industrial & Provident Society. However, there are a number of factors for societies to consider.

2.1 Are the shares which are being issued in the nature of risk share capital or in the nature of deposits? If the rules of the society provide that shares are in the nature of deposits rather than as risk share capital it is necessary for there to be a deposit protection scheme in place in respect of that withdrawable share capital. This is dependent upon the rules of the society. So, for example, where it is indicated that the share capital is risk share capital and that it may go down in value if there are losses to the society then it is clear that it is share capital which is not treated as a deposit. The Directors of a society should, however, make it very clear in those circumstances that there is a risk to a member who uses the society as a Bill Payment Service where there is a risk that the share capital might be written down and therefore there might not be sufficient monies in the account to pay bills.

2.2 Similarly, the Bill Payment Service should be restricted so that any minimum amount of share capital required to be in the member's account is retained on payment of bills. This may mean that not all bills can be paid from the account if there insufficient funds to meet the relevant payment.

3. Section7(3) of the Industrial & Provident Societies Act 1965 permits a registered society to accept deposits up to a limit of £400 without it being treated as a banking act deposit. However, most rules of Industrial & Provident Societies omit this provision. Careful discussion with the Registrar as to the reason why this provision is required for a society should be undertaken before this provision is applied.

3.1 There is no prohibition on an Industrial & Provident Society from making administration charges to operate a Bill Paying Service and it will simply be a question of ensuring that the rules of the society provide a power to permit it.

3.2 An Industrial & Provident Society would be permitted to receive agency fees or commissions for providing this service.

4. Provisions relating to VAT would be similar to those for a Credit Union.

5.Lending Money to a Member of an Industrial & Provident Society

If a Society was to make a loan to a member to meet a shortfall under the Bill Payment Service then it is arguable that the Society may only make that advance to the member on taking security for that loan from the member. Section 21 of the Industrial & Provident Societies Act 1965 states:

‘without prejudice to any provision including by virtue of Section 12 of this Act, the rules of a registered society may provide for advances of money to members "on the security of real or personal property……….’

It is a matter of legislative interpretation whether this section is restrictive suggesting advances can be made to members on the provision of security or indicative to indicate that societies may make loans to members but security is required for that purpose. There do not appear to be any cases on this question and so whether it is indicative or restrictive is not entirely clear.

Consumer Credit Licence

The provision of debt counselling advice is a regulated activity under the Consumer Credit Act 1974. If the Bill Payment Service was to involve debt counselling by the Credit Union or by the Industrial & Provident Society then that organisation would require a Consumer Credit Licence for that purpose.

Data Protection Act

There are Data Protection Act issues arising if there is a sharing of information between Community Reinvestment Partnership Members so as to distinguish between debt counselling and money transmission services. The relevant Data Protection Consents from members of a Credit Union or Industrial & Provident Society or individual seeking debt counselling advice should be obtained prior to information being passed to the other Community Reinvestment Partners.

Appendix 5: Interview and Consultation List – Britain, Ireland and the USA

1. Interviews and Consultees in Britain

Organisation	Interviewee/Consultee
ABCUL	Shaun Spiers
Anchor Housing Trust Oldham	Sandra Mardell
Anchor Staying Put Gateshead	Ron Day
Anchor Staying Put Worthing	Annette Paige
Anglia Water Trust	Susan Jordan
Barclays	Peter Kelly
Birmingham Settlement Money Advice Centre	Andrew Buswell
Birmingham Settlement National Debtline	Sophie Brookes
Bristol Water	Terry Dicks
Black Country Housing Association	Richard Baines
CDS Housing	Yvonne Davis
Church Action on Poverty	Niall Cooper
Co-operative Bank	Simon Williams
Co-operative Bank	David Dickman
Federation of Information and Advice Centres	Nick Pearson
Financial Services Authority	John Milne
Focus Housing Group	John Morris
Focus Housing Group	Mark Tranter
Hermitage Housing	Margaret Belcher
Hermitage Housing	Rachael Richards

HSBC	Andrew Hickman
Lloyds TSB	Geron Walker
Legal Services Commission	Peter Lowen
Leeds City Credit Union	Sue Davenport
Manweb	John Kennedy
Mercian Housing Association	Lisa Crane
Money Advice Trust	Alan Jarvis
Money Advice Trust	Ian Witcombe
Moseley and District Housing Association	Andrew Matheson
Npower	Elaine Midwinter
NatWest	Andrew Robinson
Nest Makers	Gordon Angus
PayPoint	Peter Binns
Payplan	John Fairhurst
Portsmouth Housing Association	Ian Ayers
Post Office Ltd.	Kevin Gilliland
Post Office Ltd.	Martin Rooney
Powergen	Ben Bradshaw
Riverside Housing Association	Christine Frazer
Scarman Trust	Matthew Pike
Scottish and Southern Energy	Stephen Millward
Scottish Power	Jim Hynd
Severn Trust Charitable Trust	Stuart Braley
South East Water	S. Mann
South Liverpool Housing Ltd	Clare Budden
Swaythling Housing Society	Nick Harris

Taff Ely Care and Repair	Karen Bland
University of Northumbria at Newcastle	Duncan Fuller
Vision	Jane Gamble
Wales Co-operative Centre	Bill Hudson
Wales Co-operative Centre	Simon Jones

2. Interviews in Ireland

Organisation	Interviewee/Consultee
Combat Poverty	Jim Walsh
Comhairle	Stuart Stamp
Cork City MABS	Dennis Corbett
Dungarvan MABS	Noel Brennan
Dungarvan MABS	John Lawless
Energy Action	Charles Roarty
Kilkenny MABS	Michael Saunders
MABS Ireland	Liam Edwards
Tallaght MABS	Kevin Garland
Tallaght MABS	Oonagh Traynor

3. Interviews in the USA	Interviewees/Consultees
Alternatives Federal Credit Union	Bill Myers
Appalachian Development Federal Credit Union	Lisa Carter
Bethex Federal Credit Union	Angela Blackman
Faith Community United Credit Union	Theresa Wilborn
Lower East Society People's Federal Credit Union	Pablo DeFillipi
Michigan State University	Maryellen Lewis
Mount Hope Housing Company	Maribel Martinez

National Federation of Community Development Credit Unions	Brian Gately
National Federation of Community Development Credit Unions	Cathie Mahon
National Federation of Community Development Credit Unions	Cliff Rosenthal
NYC*f*NAC	Peter Bray
NYC*f*NAC	Christina Ortez
Progressive Neighbourhood Federal Credit Union	Melissa Marquez
Santa Cruz Federal Credit Union	Bill Leland
Union Settlement Credit Union	Lillian Dent
Woodstock Institute	Marva Williams