

1 Introduction

This report completes the first stage in the possible development of a financial inclusion strategy for Leeds. The City Council's Development Department commissioned the research, with engagement from other interested stakeholders.

The initial justification was the rise of high interest lending organisation aimed at the financial excluded and the potential effect this has on the local economy. The Development Department were concerned that loan repayments negatively affected individual borrowers, local disadvantaged communities, and the wider economy. The actual impact in Leeds was unknown and policy and decisions makers were reliant on anecdotal evidence or limited national data.

It was acknowledged that a number of financial inclusion initiatives were being tested but the effectiveness of these was unknown. Moreover, there was growing national political interest in financial inclusion, including an Early Day Motion by John Battle MP (Leeds West). Consequently it was felt that it would be prudent economic and political management if Leeds City Council examined the extent of financial exclusion in Leeds and assessed potential solutions.

The findings outlined below have been partially informed by a national pilot project being established by Community Finance Solutions (CFS) at the University of Salford. Under this programme there are four financial inclusion loan funds in operation (Salford, Portsmouth, Blackburn, and Derby) and another five in development. The intention of the programme is to tackle financial exclusion through the evolution of the aforementioned projects. Such a methodology is not wedded to a particular model or approach, rather it seeks to replicate what works and adjust proposed solutions to local conditions. The focus of the project in Leeds is to outline a strategy for financial inclusion which incorporates the existing local strength of Leeds City Credit Union and includes improving financial literacy.

1.1 Objectives of the research

1) Researching the extent, scale and affect of financial exclusion

This focused on the seven most disadvantaged wards in Leeds. The aim was to address both the extent of individual exclusion and its effect on the broader micro-economy. To gather this information required the implementation of various methodologies, including surveys and semi-structured interviews.

2) Feasibility study of alternative community based credit/savings systems

Following the assessment of the extent of financial exclusion, the second part of the research focused the various approaches to address the issue. These included an expanded role for Leeds City Credit Union, the role of school savings banks, the involvement of mainstream financial providers, and assessing various other financial models and the challenges they faced.

1.2 Study methodology

To fulfil the objectives laid out in the work brief; a number of different processes have been employed.

1. The wider policy framework – this involved a literature review and assessment of the current policy environment. Most of the research on Community Development Finance Institutions (CDFIs) is relatively new and an academic body of evidence is in development. Consequently most of the works cited were commissioned research, usually by government agencies. For the policy literature government documents have predominately been utilised. Collectively this literature provides a background to the research, an indication of the comparative position of Leeds with regards to financial exclusion, and details of various methods of accessible loan/savings schemes.
2. A survey of residents, - Community Consultants worked with Community Finance Solutions to carry out a survey of households in the city. The total number of responses was 410. Responses were obtained from the seven most disadvantaged wards to provide a sample that roughly matches the profile of the target population as a whole. The same questionnaire was used for each interview which allowed the results to be aggregated. A copy of questions and further details regarding the methodology are contained in Appendices A and B.
3. Semi-structured interviews, - during both phases of the work it was necessary to interview key stakeholders, community leaders, and current providers of services. CFS worked with the Development Department of Leeds City Council to draw up a shortlist of interviewees. See Appendix D for list of interviewees.
4. Economic modelling, - drawing data from the surveys alongside that secured from debt advice services, CFS sought to provide an approximate measure of the economic effect of increased use of sub-prime lenders⁴. The local data was filtered through national information to provide a fair estimate of the additional cost involved.

1.2.1 Researching the extent, scale and effect of financial exclusion

As outlined above this part of the research was predominantly survey based, supplemented by semi-structured interviews, and economic modelling.

1.2.2 Feasibility study of alternative community based credit/savings systems

The second part of the research was mainly reliant on semi-structured interviews and meetings with key stakeholders, supported by desk-based research.

⁴ Subprime lenders are organisations that offer services beyond the ‘High Street’ financial institutions. The lenders target higher risk borrowers and risk is offset by higher interest rates. Examples of subprime lenders include doorstep lenders, cash chequing agencies, and pawnbrokers.

1.2.2.1 Options and Challenges

CFS drew on its considerable experience of utilising other community finance interventions to identify good practice and the modes of operation used elsewhere. Details of likely local challenges were drawn from the semi-structured interviews with key stakeholders and current providers. Collectively this should provide a comprehensive analysis of the barriers and the interventions necessary to lift them.

1.2.2.2 Support and Training

There are two aspects to support: that necessary to ensure a development occurs; and the likely market for a service. CFS believes that both must be in place if a community finance initiative is to have any effect on financial exclusion. The market aspect was drawn from the survey findings. Specific questions were asked about what type of service respondents would like to see implemented and whether they would access such a service. Although not perfect, this should provide a reasonable guide to need. To reach market, the support of enabling agencies is crucial. Collectively this information should provide a realistic assessment of the desire and need for new interventions.

1.2.2.3 Credit Unions

To fulfil the requirement to assess the feasibility of opening credit union branch offices, CFS drew on its own experience and the local knowledge of Leeds City Credit Union.

1.2.2.4 School Savings Clubs

To examine whether school savings clubs could be established alongside general financial education. Interviews with Education Leeds were sought to fulfil this requirement.

All research conducted by CFS was undertaken within British Sociological Association guidelines and ethics statements. Information surrendered by respondents is treated confidentially and quotes are anonymous.