

15 June 2009

Glasgow City Council:

Financial support to socially excluded citizens

Summary of policy/project

Scotcash offers affordable loans and a range of financial services for socially and financially excluded citizens which meet the financial and social plans of the Council.

- The value of linking the provision of financial support to effective financial advice
- The ability to be financially self-sustaining in the long term and capable of scaling up to include areas out with Glasgow

Description

In January 2007 Scotcash, supported by Glasgow City Council (GCC), Glasgow Housing Association (GHA), Scottish Executive (SE), Department for Work and Pensions (DWP), Communities Scotland (CS), Glasgow Community Planning Partnership (GCPP) and the Royal Bank of Scotland (RBS), opened to Glasgow's citizens offering alternatives to high cost doorstep credit lenders. Scotcash is an independent social business reducing financial exclusion within Glasgow by increasing access to affordable credit through loans, providing basic bank accounts (via RBS), access to discounted household goods as well as access to credit union savings accounts and high quality financial advice. It targets people in poverty and works with them, moving them on the route to financial and social inclusion. For people unable to access mainstream credit and those who are financially excluded, Scotcash offers a direct alternative to doorstep lending, illegal money lending, and other expensive forms of credit whilst providing holistic customer services designed to promote financial inclusion.

With clients primarily consisting of single parents, especially single mothers and people on low incomes, many have no experience of banks or bank accounts. This service attempts to remedy this problem by providing financial capability advice which allows one to one training on how to operate a bank account and avoid bank charges. The ability for Scotcash to directly open bank accounts is a key factor in the partnerships ongoing success. The Royal Bank of Scotland has provided Scotcash with 'Trusted Partner Status' which allows Scotcash staff to open an RBS bank account directly. RBS has trained and empowered the staff to administer the opening of basic bank accounts. Service Level Agreements between the two organisations stipulate that any person who is unbanked and makes contact with Scotcash should have access to a working bank account within three days. This public/private partnership is one of the initiatives unique selling points.

What problems does the policy/project solve?

The project, itself, is innovative. A similar type project has never before been attempted on this scale in Britain. The project has demonstrated;

- The ability to translate research into action in a very short space of time
- Public/private sector partnership working
- Demonstrable financial benefits to the targeted client group
- Holistic customer services based on robust research

The scale of financial exclusion in Glasgow is vast with 21.5% of households having no access to a bank account, over 60% having no savings, and almost 30% having no home contents insurance. In addition, there are an estimated 45,000 users of home credit in city, borrowing money at an average of 164% APR.

The financially excluded pay more for basic necessities such as utilities, essential household goods, and credit. It is estimated that poor families pay a 'poverty premium' of £1,000

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additional costs per annum. £1,000 represents the average of 9% of the disposable income of the average family. Having access to basic financial services such as a bank account and Direct Debit, and affordable credit can therefore make a massive difference to the lives of the most vulnerable in our society.

It was recognised very early on that it would be crucial to ensure that the initiative provided direct access to bank accounts for customers. Being banked enables account holders to join the financial mainstream and derive significant money management benefits from direct debit and standing order facilities. Moreover, with a bank account, the holder can access the discounts that are often available through direct debit from utility companies, and mobile phone operators amongst others, and can begin to access alternative forms of credit by building up a credit rating. With a bank account there is no need to rely on expensive cheques cashing outlets, and, in some cases employers will insist upon paying employee wages directly by credit transfer into a bank account. After approaching a number of financial institutions, it was felt that the Royal Bank of Scotland were the most approachable, enthusiastic and the most willing to put ideas into practice.

addressed by establishing a new independent lending company or CDFI (Community Development Finance Institution).

Before project implementation, two visits were arranged to London and the Midlands to visit examples of good practice. These visits were in addition to the knowledge and experience held by the lead consultants who had a wealth of practical experience of Community Banking Agreements and credit union development in Scotland.

The projects visited were:

- Services Against Financial Exclusion (SAFE), London
- Fair Finance, London
- CHANGE, London
- Mercian Housing Association, Birmingham
- Leicester Housing Association, Leicester
- East Lancs. Moneyline, Blackburn

The Scotcash business plan has drawn heavily on the experience of East Lancs Moneyline, a successful CDFI operating in Blackburn and the surrounding environs of North West England.

Has the idea worked elsewhere?

A steering group comprising of GHA, GCC and Communities Scotland was formed to examine the issues and identify an appropriate solution – a model capable of delivering on a scale large enough to impact upon the home credit lending market in Glasgow, and able to offer sustainability in the longer term. A number of delivery options were considered, and it was agreed that tackling expensive home credit and providing access to money advice and bank accounts would be best

What were the difficulties of implementation?

A similar type project has never before been attempted on this scale in the UK. A social enterprise which provides holistic and forward thinking financial services for its customers is unique within the UK CDFI sector. Whilst the project team drew on models of best practice from elsewhere, as noted above, due to the scale of implementation various challenging barriers were required to be dealt with, not least, the scale and complexity of the project in terms of funding. This project encompassed a £2.2M funding package, including 10 funders, with a mix of public sector funding and private sector borrowing. An

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addition, tight timescales were dictated by the requirement of the DWP Growth Fund to commence the business operations by January 2007. However, all of these barriers were overcome due to the strong partnership and commitment of the key stakeholders to provide a viable business model.

What is the cost of implementation?

As noted above, the total investment required totalled £2.2M spread across 10 funders. This includes Glasgow City Council, Glasgow Housing Association, Scottish Executive, DWP, Greater Glasgow Health Board and the Abbey Foundation. In addition, private sector borrowing has been made available to the project from the Royal Bank of Scotland.

What is the evidence of success?

Although the project has only been operational for 28 months, it already shows significant results in contributing to the financial inclusion agenda. To date;

- 2096 loans totalling £1.2M have been approved
- 588 bank accounts have been opened
- 191 savings accounts opened holding £28,000 in savings
- Debt and budgeting advice provided to 1,035 clients

In the words of one customer "I read about Scotcash in the housing's newsletter and my initial reaction was 'that's too good to be true' – who is going to lend with a decent rate of interest

to someone like me" That customer subsequently was approved for a loan which significantly reduced the amount she had previously paid in interest charges and she recommended the project to her neighbour and mother in law.

The success of the project relies on word of mouth to reach those most disadvantaged. It is essential that Scotcash is seen as a trusted project. With very little formal marketing, the project has achieved a large customer base in a very short period of time through the recommendations of existing customers, demonstrating that customer service is of a high quality and more than meets the needs of those it serves.

The Project is adhering to robust monitoring frameworks implemented in partnership with the funders such as Glasgow Housing Association, Department for Work and Pensions, Glasgow Community Planning Partnership etc to ensure it becomes self-sustaining in order to meet vast potential. Similarly, social impact analysis is planned by Sheffield University over a number of years to measure exactly how financial exclusion in Glasgow has changed as a result of this project.

Best practice has been demonstrated through a rigorous 10 year business plan and the Steering Group's determination to ensure the model did not just meet its social objectives, but also its business objectives.

Would this work in other Councils?

In 2005 across the UK, CDFIs were providing £181m loans and investments from £50 to £1m. They have financed more than 18,000 businesses and people, sustained 88,000 jobs and created 11,000 more. They have levered an extra £285m of funding into the businesses and households

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they serve and improved the net income of 210,000 households. This exemplifies that the CDFI model does work. However, in order to ensure financial self sustainability in other local authorities, any potential franchise of Scotcash needs to demonstrate sustainability in the longer term with income from loans covering the fixed staff and office costs and the project bad debt.

In order for the initiative to work in other Councils, the following determining factors would apply:-

- Sufficient public sector investment to support the initial fixed staff and office costs and subsidise the loan fund;
- Sufficient investment from housing associations on a ongoing basis to support the initial fixed staff and office costs and subsidise the loan fund;
- Sufficient initial investment from sympathetic Trusts or banks to support the initial fixed staff and office costs and subsidise the loan fund;
- An initial 1% market share from the current home credit market rising to 5.7% over a ten year period;
- An average of 81 small business loan customers per year, borrowing an average of £3850;
- An agreeable credit union or bank partner to offer a saving account as part of loan repayments;
- An agreeable bank partner to offer bank accounts (including business bank accounts where appropriate) for customers;
- A supportive money and debt advice sector who will carry literature on the CDFI and (a) actively support the CDFI loan model by making referrals or (b) accept new referrals from the CDFI;
- A supportive business advice sector who will work with the CDFI to both make and receive referrals, and, potentially, jointly finance

prospective customers to limit risk exposure;

What advice would you give any Councils wishing to adopt this idea?

In order to be successful, support from all potential partners and investors that any potential CDFI is badged like a loan company and does not appear to the customer to have obvious associations with local authority, housing associations or government. In addition, an existing CDFI, for example Scotcash who might be prepared to open a franchise or outlet in other local authority areas therefore reducing certain key costs (loan software, generic literature, chief executive / manager salary, lending policy; initial legal and tax advice; audit fees etc).

This final point would allow a Council to open a CDFI on the back of existing lending operations, use existing software and literature and save costs on senior officer salary, administrator, lending policy and procedures.

For more information

Contact Sharon MacPherson, Debt Strategy Officer, Development and Regeneration Services, Glasgow City Council on 0141 287 7284 or email Sharon.macpherson@drs.glasgow.gov.uk

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