



THE EVOLUTION OF FINANCIAL EXCLUSION IN LEEDS SINCE 2004 – FINAL TECHNICAL REPORT

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About CFS

Located within the University of Salford, Community Finance Solutions (CFS) is an independent award-winning research and development unit engaged in promoting and developing integrated solutions for financial and social inclusion, and community ownership of assets.

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Foreword

Preface

In 2004 research was conducted into financial exclusion in Leeds. The research considered two aspects of the issue. Firstly, to undertake research to establish the extent of the problem in Leeds for individuals, disadvantaged communities and Leeds as a whole. Secondly, to undertake a feasibility study to determine responses that would address the situation and in particular consider what role could be played by the expansion of Credit Union facilities or other forms of community enterprise in addressing the problems faced by financially excluded communities.

Research was carried out in conjunction with a range of Council departments and partners including the Citizens Advice Bureau, Local Authority Welfare Rights teams, elected representatives – Councillors, MP's, Community Involvement teams and neighbourhood community groups – and in liaison with partnership groups such as Leeds Voice and Leeds Faith Communities Liaison Forum. A survey was conducted involving interviews with 410 householders and the results of this survey formed a significant base of data illustrating the extent of the problem.

The study identified the credit market in Leeds which targets disadvantaged neighbourhoods and the different communities within them and particularly focused on sub-prime moneylenders. The percentage of people with and without bank accounts was identified and also those without access to mainstream credit facilities. Difficulties which people faced in obtaining mainstream banking facilities were considered and what factors were associated with this difficulty (e.g. Security/identity checks brought about through money laundering regulations, lack of access to bank facilities, lack of skills/knowledge/access to telephone/internet banking, banking practices, religious or cultural factors.)

The research also looked into the extent of debt and its impact on individuals, disadvantaged communities and the City as a whole and considered the distinction between manageable and un-manageable debt in the defined areas.

The research identified needs which came under three broad headings:

Affordable credit, debt advice and financial literacy

The underlying need was for services to be locally provided and integrated. In order to ensure a long-term and sustainable commitment, political support was secured from across all the Council's main political parties. One of the key factors in developing the successful project was the establishment of a broad Steering Group. This Steering Group covers all City Council Departments and many partners from the public, private and voluntary sector. The group now comprises over 100 representatives from 50 partner organisations.

Some of the key initiatives developed since that time, include:

Affordable Credit

- The roll out of Credit Union branches in the Council's One Stop Centre and housing cash offices – expansion from 2 branches in 2005 to 10 by 2008.
- Expansion of the development of Credit Union schools saving clubs.
- Launch of an enterprise loan scheme run by the Credit Union to provide finance to small businesses who would not normally be able to raise funds for expansion - funded through the Local Enterprise Growth Initiative (LEGI).

- The launch of the Leeds “Loan Shark” project in conjunction with Birmingham City Council and West Yorkshire Trading Standards.
- Launch of the Credit Union 'Handiloon' affordable loan scheme.
- Discussions with the Post Office about greater collaboration in dealing with Credit Union accounts.

Debt/Money Advice

- Development of the Leeds Money Advice Project (MAP) partnership which unified all the city’s 5 debt advice providers and resulted in a successful joint bid to the DTI (now Department for Business Innovation and Skills - BIS) for additional face-to-face debt advice funding.
- Developing a project to provide basic financial management and debt counselling training to staff working in the Council's customer service points and other front-line staff.
- Offering families advice services via the Council's Children’s Centres which provide integrated childcare and education for early-years children.
- Development of debt and financial advice packages by Leeds Housing Arms Length Management Organisations (ALMO’s) and housing associations, to assist tenants with their debt and money problems.
- Provided an extensive communications network between all partners involved in debt / money advice support to enable easier access to debt counselling appointments for clients.

Financial literacy

- Co-development of financial literacy packages for young children by the Council's library service and Yorkshire Bank.
- Development by Education Leeds (the city’s education administration provider) of financial literacy packages for school-age children.
- Working with the Financial Services Authority (FSA) to deliver financial capability training for all council staff.

Cross initiative/strategic

- Key Improvement Priority in the Leeds Strategic Plan (successor to the Local Area Agreement).
- New approach to developing a Council “Corporate Debt Policy” involving key partners who have direct experience in dealing with debt problems.
- Commissioned this current piece of research to determine the economic and regeneration impact of financial inclusion initiatives.
- Joined with seven other European partner cities developing joint approaches to social exclusion issues. Leeds City Council showcasing the financial inclusion project.

In recognition of Leeds City Council’s work in this area it was awarded Beacon Status by the Government’s Improvement and Development Agency (IDeA) in 2007 in the theme; *Promoting Financial Inclusion and Tackling Over-Indebtedness*.

The success achieved to-date is a testament to the collaborative arrangements adopted in the city. The original financial exclusion research proved to be valuable in providing the evidence required to convince government and key stakeholders that financial exclusion existed in Leeds, and recommend ways in which it could be best tackled.

When the 2004 research was concluded the findings were reported to a half day conference attended by a significant number of partners working in the Leeds area. At this conference it was determined that a similar exercise should be undertaken five years later. This was to attempt to identify if the impact of the financial inclusion strategy (which developed in response to research findings) was having the desired and intended effects in the neighbourhoods which were subject to the original research.

Thus in January 2010, the same survey was conducted with 600 households in the same neighbourhoods. In addition, 300 households in less deprived neighbourhoods were surveyed focusing on homeowners to provide information about the extent of financial exclusion arising from the economic recession in recent years.

This report compares the results from the 2004 and 2010 surveys. It also contains an extensive discussion of the changes in financial inclusion policy and financial exclusion nationally for the same period. We hope that it will aid policy-makers and practitioners beyond Leeds to understand the changing nature of financial exclusion.

Glossary

<i>ABI</i>	Association of British Insurers
<i>BBA</i>	British Banker Association
<i>CDFA</i>	Community Development Finance Association
<i>CDFI</i>	Community Development Financial Institution – independent organisation lending and investing in deprived areas and underserved markets without access to mainstream finance
<i>CDVC model</i>	Community Development Venture Capital model
<i>CERT</i>	Carbon Emissions Reduction Target
<i>CITR</i>	Community Investment Tax Relief
<i>DEFRA</i>	Department of Environment, Farming and Rural Affairs
<i>DWP</i>	Department of Works and Pension
<i>DTI</i>	Department of Trade and Industry (now BERR)
<i>FIF</i>	Financial Inclusion Fund
<i>FIT</i>	Financial Inclusion Taskforce
<i>FRS</i>	Family Resources Survey
<i>Growth Fund</i>	Fund of £36 million fund set up by DWP in 2004 to increase availability of affordable personal loans via third sector (not-for-profit) lenders (e.g. CDFIs and credit unions)
<i>HCI</i>	Home Contents Insurance
<i>NAO</i>	National Audit Office
<i>NCC</i>	National Consumer Council
<i>NHF</i>	National Housing Federation
<i>OFT</i>	Office of Fair Trading
<i>Phoenix Fund</i>	Fund set up by BIS (then DTI) in 2000 to support innovative demonstrator projects working in disadvantaged areas. It benefited 62 CDFIs with £42.5 million in capital and revenue funding
<i>PAT</i>	Policy Action Team
<i>POCA</i>	Post Office Card Accounts
<i>RDAs</i>	Regional Development Agencies
<i>SOA</i>	Super Output Area
<i>SEU</i>	Social Exclusion Unit

EXECUTIVE SUMMARY

Introduction

In 2004, a survey of 410 households in deprived neighbourhoods was conducted as part of a study of financial exclusion in Leeds (henceforth referred to as Original sample). In 2010, the same survey was conducted with 602 households in the same neighbourhoods to see if the nature and magnitude of financial exclusion had changed since the last survey was conducted (henceforth referred to as Repeat sample). In addition, 300 households in less deprived neighbourhoods were surveyed (henceforth referred to as Extended sample). This latter sample focused on homeowners and intended to provide information about the extent of financial exclusion arising from the economic recession in recent years.

Between 2004, when the first survey was conducted, and 2010, when the last survey was conducted, the UK has experienced its largest banking crisis since the interwar years and the greatest recession since World War II. Thus the results have been discussed in the context of the recession as well as the national financial inclusion policies and national trends in financial exclusion.

It is important to stress that an important limitation of such a survey methodology is that it is not suitable for ascertaining issues for small minority groups, such as the disabled, ethnic minority groups and people with mental health problems.

Impact of the recession

The survey results suggest that the households surveyed in the repeat sample had indeed been affected by the recession. One in four households across both samples had someone who had been made redundant, had their hours reduced or had their pay cut during the previous twelve months. There was also a significantly greater proportion of unemployed in the repeat and extended sample compared with the original sample. This is likely to affect the extent and nature of financial exclusion in the repeat sample, as households on low fixed incomes with weak or no links to the labour market are less likely to hold and use most mainstream financial products.

Banking and transaction services

In Leeds the access to basic banking and transaction services has increased significantly. There has been a significant increase in ownership of bank accounts as well as a significant fall in the percentage that has been denied a bank account since the original survey. There is also evidence suggesting an increased usage of direct debits which is not the case nationally.

This largely mirrors the national and regional picture, as there has been considerable progress in terms of access to bank accounts both in England and further in Yorkshire and the Humber. In the latter, the percentage of households with current accounts has risen from 85% to 91% between 1999 and 2008. Also the proportion of households without any form of account fell from 7% in both England and the region in 1999 to 3% in 2008. This is likely to be the result of the introduction of no-frill bank accounts as well as the move toward payment of benefits directly into bank accounts.

Savings and assets

Nationally and regionally the propensity to save has remained largely stable and has fallen only slightly. The repeat Leeds survey saw a significant drop in the propensity

to save, the frequency of saving and levels of savings. The proportion of households in Leeds without savings has nearly doubled.

Affordable credit

The Government has sought to enable low-income households to access affordable credit through supporting the provision of credit through third sector lenders. In Leeds both sub-prime and mainstream borrowing has decreased since 2004. In terms of affordable credit, there was an increase in awareness of the credit union though no significant change in credit union membership among survey respondents since 2004. However, the number of Leeds Credit Union adult members has increased from just over 10,000 in 2004 to over 21,500 in 2010. In the same period the total membership (including junior accounts and members under the age of 18) rose from 12,000 to in excess of 26,000.

Insurance

In Leeds, there has been a significant fall in the likelihood of having home contents insurance. Just under a third of respondents (32%) in the Repeat survey said they had contents insurance, significantly fewer than was found in 2004 when it stood at 39%. Nationally, the ownership of home contents insurance has remained low for tenants and low-income households despite falls in the cost of such insurance in real terms.

Over-indebtedness

Similar to the national trends, over-indebtedness in Leeds particularly appears to have risen since 2004. This is evidenced by the rise in mortgage repossessions. The survey results indicate a significant rise in the level of worry of getting into debt. In the 2004 Leeds survey, 40% were very or fairly worried compared with 60% in 2010. There is also a significant increase in the percentage of households who are behind with one or more bills, though the list of possible bills was more extensive in the repeat questionnaire than in 2004.

Fuel poverty

Nationally fuel poverty has increased sharply especially since 2006. Today over 4 million households in England are classed as fuel poor, of which 3.2 million are classed as vulnerable. This is up from 1.2 million households in 2004. In Leeds too fuel poverty seems to be on the rise. A significantly higher proportion of survey respondents struggled to pay their fuel bills in 2010 than in the original sample. However, a higher proportion of respondents are paying their fuel bills using direct debits, which tends to lead to lower fuel bills relative to prepayment meter and cash payments.

Groups and areas affected by financial exclusion

A comparison of the Original and Repeat Leeds survey respondents suggests that the same groups are experiencing financial exclusion. In both the Original and Repeat surveys, social housing tenants were far more likely to have fallen behind with bills than owner-occupiers. Owner occupiers were more likely to have savings and home contents insurance than other tenures. Overwhelmingly, workless and lone parent households were more likely to have no savings at all or less than £100. The groups least likely to have a bank account were men under 60 living alone and pensioner only households.

However, an examination of the respondents in the Extended sample suggest that financial exclusion not only affects the most deprived neighbourhoods and groups such as lone parents and households on means-tested benefits. The respondents of the Extended sample, generally more affluent than the Original and Repeat survey samples, were only slightly more likely to save using a bank or building society account than the respondents of the 2004 survey. They were also significantly less likely to save, in any form, when compared with the original survey. Furthermore, the respondents of the Extended survey were less likely to have mainstream borrowing when compared with the Original survey respondents.

Implications for research and policy

The findings of this report paint a somewhat bleak picture of financial exclusion in Leeds. With the important exception of access to and use of banking and transaction services, financial exclusion has grown since the last survey. This is not necessarily a reflection on the significant financial inclusion interventions implemented in the UK and in Leeds. Ultimately, as with any form of interventions, the impact of financial inclusion interventions can only be ascertained through a designated study examining the effects on beneficiaries of a given number of interventions and the costs of these interventions. A recent study found that financial inclusion interventions had a cumulative impact of £28 million on the regional economy. Further, the financial and economic crisis may also have eroded any gains of financial inclusion interventions.

However, the findings of this study provide important lessons for financial inclusion practitioners. First, the influence of national factors on financial exclusion locally is likely to be considerable. Second, the trends in financial exclusion are closely linked to trends in employment and other socioeconomic factors. This suggests that combating financial exclusion is not likely to be very effective if done in isolation of wider social inclusion interventions and labour market interventions. Local authorities and other stakeholders in financial inclusion also need to be attuned to the national picture and lobby the national government for the implementation of more effective financial inclusion policies.

1. Introduction

The present document presents the findings and the methodology for a research project looking at the changes in the extent and nature of financial exclusion in Leeds since 2004, when the first survey of financial exclusion was conducted.

The remainder of this report is organised into 4 chapters:

- *Chapter 2: Literature review*
- *Chapter 3: Methodology*
- *Chapter 4: Findings*
- *Chapter 5: Conclusions and recommendations*

Supplementary documentation can be found in Appendices A-D:

- *Appendix A: Survey methodology and sampling*
- *Appendix B: Overview of samples*
- *Appendix C: Questionnaire*

2. Financial inclusion policy and context since 2004: A review of policy and research

2.1. Introduction

This chapter reviews developments in the nature and magnitude of financial exclusion and in financial inclusion policy since the last survey was conducted in Leeds in 2004. This will aid in the analysis of the survey data. The remainder of the chapter is organised into nine sections. The second section examines the economic and political context, focusing especially on the current financial and economic crisis, while the third provides an overview of the evolution of financial inclusion policy, especially since 2004. The following six sections look at changes in access to banking and transaction services (Section 4), savings and assets (5), the access to affordable credit (6), affordable insurance (7), over-indebtedness (8) and fuel poverty (9). The final section discusses the implications for the survey findings.

2.2. Economic and political context

Any account of changes to a population or a social phenomenon over the past few years would be incomplete without reference to the current financial and economic crisis and its implications.

The current financial crisis “is the largest [banking crisis] since 1929-33” (Barrell and Davis, 2008, p.5). The trajectory of the crisis is well-known by now. Falling US house prices, rising mortgage delinquencies and foreclosures led to massive losses in sub-prime residential mortgages and mortgage backed securities in the spring of 2007. The subsequent loss of confidence in financial institutions led to a freeze in inter-bank lending, which contributed to the fall of Northern Rock in February 2008. The bottom fell out of the market in September 2008 with the bankruptcy of the Lehman Brothers and the near-collapse of the insurance giant American Insurance Group (AIG) triggering panic sales and large losses in the stock market.

Up until the onslaught of the financial crisis and the current economic difficulties, the UK economy had experienced unprecedented levels of economic growth. However, a perfect storm of reduced availability of credit, rising prices for raw materials, energy and other inputs, and falling prices for output pushed the UK economy into negative growth rates in 2008.

Although economic growth resumed in the last quarter of 2009, the consequences of the financial crisis are likely to reverberate for some years to come. The National Institute of Economic and Social Research (NIESR) predicts that growth will remain low in 2010 and 2011 hovering around 1% and that unemployment will peak at above 9% in 2011 (Kirby et al, 2010).

The full consequences of the economic and financial crisis on the nature and magnitude of financial exclusion are not yet known as limited research has been conducted in the field, making this study a timely contribution, and the effects are likely to be lagged. It is expected that the economic and financial crisis will increase the number of people that are financially excluded. A tightening of lending criteria, job losses, rising debt and repossessions are likely to increase the number of credit impaired households. This, one would expect, would reduce the ownership rates of products linked to credit rating, such as current accounts, mortgages, consumer loans, credit cards and insurance policies. In addition it has also been speculated that sub-

prime lenders have taken advantage of the tightening of lending policies among mainstream banks to move upwards in the market.

2.3. Financial Inclusion Policy

Numerous policies and events have affected the financial inclusion policy since it became recognised as an important issue within deprived neighbourhoods following the establishment by the previous Government of the Policy Action Teams (PATs) in 1998 and since the last survey was conducted in Leeds in 2004 (Table 2.1).

Table 2.1: Financial Inclusion Timeline: Policies and Events

1998	18 PATs set up by Social Exclusion Unit (SEU) to tackle problems facing people in deprived neighbourhoods; PAT 14 focused on personal finance & PAT 3 focused on enterprise development
1999	PATs launch findings
	Inter-ministerial group on fuel poverty set up
2000	Social Investment Taskforce recommends creation Community Investment Tax Relief (CITR) & Community Development Venture Capital (CDVC), & disclosure of bank lending in deprived communities
	Phoenix Fund launched
	Fuel Poverty Monitoring and Technical Group set up to monitor progress on combating fuel poverty & to provide advice to government on fuel poverty policy
	Home Energy Efficiency Scheme (now Warm Front Team) launched to provide insulation & heating measures to private sector housing households on certain benefits
2001	Association of British Insurers (ABI) & Housing Corporation launched best practice guidance on establishing insurance with rent schemes
	UK Fuel Poverty Strategy released
2002	Introduction of CITR business lending to Community Development Financial Institutions (CDFIs)
	1 st Savings Gateway Pilot Launched
	Bridges Ventures launched
	Community Development Finance Association (CDFA) founded
2003	Consumer Credit White Paper “Fair, clear and competitive. The Consumer Credit Market in the 21 st Century”
	Social security benefits & state retirement pension paid into accounts rather than girocheques & payment books
	Basic Bank Account – a no-frills bank a/c not requiring credit scoring – introduced
	Post Office Card Account (POCA) – electronic version of girocheque or payment book – launched
2004 AND BEYOND...	
2004	Illegal Money Lending Team piloted in Glasgow & Birmingham
	Polis report “ <i>The effect of interest rate controls in other countries</i> ” argues that interest rate ceilings may force people to take out larger loans, increase illegal money lending & entice lenders to introduce/increase other charges
	National Consumer Council (NCC) lodges super-complaint against home credit industry with Office of Fair Trading (OFT). OFT response points to lack of competition
	Government & major banks agree on shared goal of halving number of adults living in households without access to a bank account
	Treasury Committee announces inquiry into cash machine charges
	Government Plan for Action on fuel poverty launched with the aim of ending fuel poverty for vulnerable households by 2010
2005	Child Trust Fund launched

	2 nd Savings Gateway Pilot launched
	Financial Inclusion Taskforce launched
	Financial Inclusion Fund 1 (FIF) (£120 million, 2005-08) launched
	Treasury Committee publishes report on inquiry into cash machine charges concluding though fee-charging machines are legitimate, their spread, if at expense of free machines is a concern & called for more transparency on behalf of LINK
2006	Insurance Working Group established under Financial Inclusion Taskforce (FIT)
	My Home launched by the National Housing Federation
	Competition Commission Home Credit Investigation report launched
	ATM Working Group under chairmanship of John McFall MP reports
2007	End of Phoenix Fund, responsibility transferred to Regional Development Agencies (RDAs)
	Roll-out of Illegal Money Lending Teams to all regions in Great Britain
	Government strategy “Financial inclusion: the way forward” launched
	Experian publishes “Mapping the demand for, and supply of, third sector affordable credit”
2008	Thoresen review publishes its report recommending a multi-channel approach to the delivery of generic money advice, building on a partnership model & a new brand reflecting the principles of this new service
	FIF2 (£135 million, 2008-11) launched
2009	Homeowners Mortgage Support scheme announced to assist homeowners experiencing temporary drops in income by deferring repayments of up to 2 yrs
	Mortgage Rescue Scheme announced to prevent vulnerable households losing their homes via RSL provision of equity loan or government mortgage to rent
	Moneymadeclear Pilot for North West & North East England to provide people with money guidance (online, phone & face-to-face) to make the most of their money in response to Thoresen review
2010	Launch National Audit Office (NAO) report praising FIF2 face-to-face debt advice programme but criticising indebtedness strategy
	Moneymadeclear F2F delivery is due to be rolled out nationally
	Government announces policy to legally oblige UK banks to open basic bank accounts for citizens

The previous Government put in place a series of financial inclusion interventions since the last Leeds survey was conducted in 2004. In the main these interventions have sought to deal with market failures in the provision of mainstream financial services by supporting supply through the third sector rather than putting in place legislation obliging mainstream service providers to provide for the financially excluded. For example, the UK is one of the few countries in Western Europe without a cap on interest rates and there are no laws requiring disclosure of data on lending to low-income households and areas. Instead, UK legislation is predominantly focused on enforcing sales and advertising standards, including ensuring that financial product contracts are transparent (displaying APR etc) and banning certain sales practices which are seen as predatory, such as cold calls.

2.4. Banking and transaction services

The access to transaction and banking services has been at the centre of financial inclusion strategy in the UK since financial exclusion became a policy concern in the late 1990s. The emphasis on banking and transaction services in terms of policy and targets stems from the notion that managing a household budget without these services is very difficult and costly.

It is also an area where considerable progress has been made. Table 2.2 shows account ownership for households in Yorkshire and the Humber, and England, and non-ownership of bank accounts in England by weekly income since 1998.

Table 2.2: Bank account ownership for households in Yorkshire and the Humber (%)

	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Current account	85 (86)	85 (86)	82 (87)	84 (88)	85 (88)	87 (90)	89 (91)	89 (91)	88 (90)	91 (92)	90 (92)
Post Office A/C	6 (12)	8 (8)	8 (8)	6 (7)	7 (7)	6 (7)	4 (5)	4 (4)	4 (5)	4 (4)	-- (--)
POCA	-- (--)	-- (--)	-- (--)	-- (--)	-- (--)	-- (--)	-- (--)	9 (7)	9 (6)	7 (7)	7 (6)
Other accounts	60 (66)	59 (62)	58 (60)	56 (58)	56 (56)	51 (55)	51 (54)	52 (51)	47 (50)	46 (51)	43 (50)
Basic Bank A/C	-- (--)	-- (--)	-- (--)	-- (--)	-- (--)	3 (3)	8 (6)	6 (5)	9 (7)	8 (7)	7 (6)
No accounts	7 (7)	8 (8)	10 (7)	9 (7)	9 (7)	7 (6)	5 (4)	4 (3)	4 (3)	3 (3)	4 (3)

Source: Family Resources Survey, DWP

Notes: Proportion of bank account ownership for households in England in brackets

Households in the UK with no bank account by weekly income (%)

	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
< £100	16	18	16	16	17	15	10	10	11	7	10
£100-£199	19	21	21	18	19	16	10	6	6	6	6
£200-£299	10	12	13	11	12	10	6	4	4	4	3
£300-£399	3	4	6	5	6	5	4	3	3	3	3
£400-£499	1	1	2	2	3	3	3	3	2	2	2
£500-£599	1	1	2	1	3	2	2	2	3	2	3
£600-£699	1	1	1	1	1	2	2	2	2	2	2
£700-£799	--*	--*	1	1	2	2	1	2	3	2	2
£800-£899			--	1	2	1	1	2	3	1	2
£900-£999			1	1	2	1	1	2	2	2	2
≥ £1,000			1	1	2	1	1	2	2	1	2

Notes: * Includes all households with incomes of £700 and above

The data shows a gradual reduction in the proportion of unbanked households. In Yorkshire and the Humber the proportion of households without any type of account was around 9-10% between 2000 and 2003. From 2003 to 2009 this percentage fell from 7% to 3%. In England, from 1998 to 2003 around 7% had no account. In 2003 onwards this percentage started falling until it settled on its current level of 3%.

If we look at the proportion of UK households with no bank accounts, we can see that account ownership increases with weekly income. At the beginning of the period, between 10% and 19% of households in the three lowest income brackets did not have a bank account, compared with 1% for the three highest income brackets.

However, a more interesting observation is that bank account ownership for higher income groups seems to have reached a saturation point at around 1-2% and changes little between 1998 and 2009. In contrast, the proportion of households in the three lowest income brackets without a bank account falls considerably, especially after 2004.

Absolute figures of unbanked households largely corroborate the increase in bank account ownership. Table 2.3 displays the progress made towards the goal agreed between the Government and major retail banks in 2004 to halve the number of unbanked households.

Table 2.3: Progress towards shared goals on unbanked (denoted in millions)

FRS Year	Unbanked households	Adults in unbanked households
2002-03	1.84	2.83
2005-06	1.30	1.97
% change since 02/03	- 29%	- 30%
2006-07	1.37	2.09
% change since 05/06	5%	6%
2007-08	1.25	1.85
% change since 06/07	- 8%	- 11%
% change since 02/03	- 32%	- 35%

Source: HM Treasury Statistical Briefings on households without access to bank accounts

Notes: FRS = Family Resources Survey

Since 2002-03, the number of unbanked households has fallen by 32%, while the number of adults in unbanked households has fallen by 35%. In absolute terms, the number of unbanked households fell from 1.84 to 1.3 million from 2002-03 to 2005-06, constituting a percentage decrease of nearly 30%. Since then progress has stalled, with the number of unbanked households being reduced by a mere 50,000 since 2005-06 or around 4%.

Further, a survey conducted for the National Consumer Council (NCC) (2005) found that low-income consumers were increasingly comfortable with the idea of having their benefits paid into a bank account. From 2000 to 2005, the proportion of these households feeling very or fairly uncomfortable fell from half to around one in ten.

This progress is likely to be the product of numerous factors including:

- *Introduction of no-frills accounts:* On the back of PAT 14's recommendation, the Basic Bank Account – a no-frills bank account not requiring credit scoring – was introduced in 2003. In the same year the Post Office Card Account (POCA) – an electronic version of the girocheque or payment book – was also launched. Although questions have been raised about their usefulness, they have contributed to reducing the number and proportion of unbanked households. Since being launched, 4 million POCAs (Collard, 2007) and nearly 8 million Basic Bank

Accounts (BBA website) have been opened. Research commissioned by the British Bankers Association (BBA) suggests that 6 out of 10 had no other account when opening a basic bank account and 5 out of 10 came from households with no bank accounts (Millward Brown Research, 2006).

- *Electronic payment of benefits:* The Government decided to pay benefits and state pensions into accounts rather than through payment books and girocheques from 2003, as well as housing benefits by 2005. This has also undoubtedly been a contributing factor to reducing the number of unbanked households, especially given that households on means-tested benefits have a high likelihood of being financially excluded or unbanked.
- *Introduction of shared aims:* The development and monitoring of a shared goal for halving the number of unbanked households and adults has probably also given momentum to this trend.

In its 2010 budget the Government also announced that banks would be legally obliged to provide a basic bank account to every citizen. It is expected that this measure may further underpin progress towards reducing the number of unbanked households.

However, there are question marks about the extent to which increased bank account ownership in fact leads to increased usage. Research commissioned by Ofgem suggests that customers on prepayment meters are unlikely to switch to paying via direct debit (FDS International, 2008). Similarly, a National Consumer Council (2005) study found that half of basic bank account holders only used their accounts to receive and withdraw benefits, preferring to manage their money and pay bills in cash. A study conducted for the Financial Inclusion Taskforce also found that the use of prepayment meters and cash payments was prevalent among lower income groups (BMRB Social Research, 2006). Finally, research conducted for the BBA into basic bank account holders found that 50% did not have any direct debits coming out of their bank accounts (Millward Brown Research, 2006). It must be noted that it is difficult to track changes in bank account usage as FRS and similar surveys do not collect such information.

This persistence of cash-based budgeting and money management is a major obstacle to promoting financial inclusion. By not using electronic means of payment, the households are not building up a credit score which potentially could enable them to access mainstream financial products. Moreover, paying bills in cash also means higher costs, as the best deals tend to be found online.

One of the main reasons for the persistence of cash-based budgeting is the ability to monitor and control spending, and particularly to avoid getting into debt (NCC, 2005; BMRB Social Research, 2006). By operating in cash, funds can be allocated to different budget posts through the use of designated jars or envelopes enabling the individual responsible for budgeting to control spending.

Another key area of policy on banking and transaction services relates to the access to free ATMs. The focus on ATMs can be traced back to the Treasury Select Committee inquiry into cash machine charges set up in December 2004. The report published the subsequent year raised concerns that if the spread of fee-charging ATMs was happening at the expense of free ATMs this could potentially exacerbate financial exclusion. On the back of these concerns, an ATM Working Group under the chairmanship of John McFall MP was set up in December 2006.

The ATM Working Group (2006) found that there had been a net increase in free ATMs. Although there had been an increase in the number and proportion of charging ATMs, the proportion of total withdrawals from such machines had remained stable. Statistics from the LINK website confirm that this is still the case, as around 97% of cash withdrawals (per December 2009) are from free machines, up slightly from the 96% reported by the working group. Similarly, research conducted for the Financial Inclusion Taskforce of ATM usage found no evidence suggesting that low-income households disproportionately use charging ATMs (BMRB Social Research, 2006).

However, the group did find that around 1,700 of the most deprived quartile of Super Output Areas (SOAs) did not have a free ATM in the area or within 1 kilometre from the centre of the area. Around 4% of the UK population live in these SOAs. Half of these areas had charging ATMs and a third had a post office branch, an important source for free cash withdrawals for low-income households.

Around 130 of these areas were deemed unsuitable locations for free ATMs due to planning issues or low population densities. The Working Group agreed to work towards placing free ATMs in the remaining areas. Table 2.4 displays the progress towards that target.

Table 2.4: Progress on targets for free ATMs in deprived areas

Target Super Output Areas	Number of target areas addressed
ATM live	979
ATM under contract*	103
Total	1,082
Areas deemed unsuitable	130
Total resolved or unsuitable	1,212
Outstanding areas	495
Total	1,707

Source: LINK website, updated November 2009

Notes: * Not all these sites may be installed

To date around 500 of the areas identified have yet to have a free ATM placed in them.

2.5. Savings and assets

Encouraging households and individuals to save in the form of pension policies, regular savings accounts and stocks, has been a key concern for the UK government. Households and individuals who save may be in better position to cope with income shocks, life-cycle events (e.g. old age and retirement) and expenditure hikes without relying on the public safety nets.

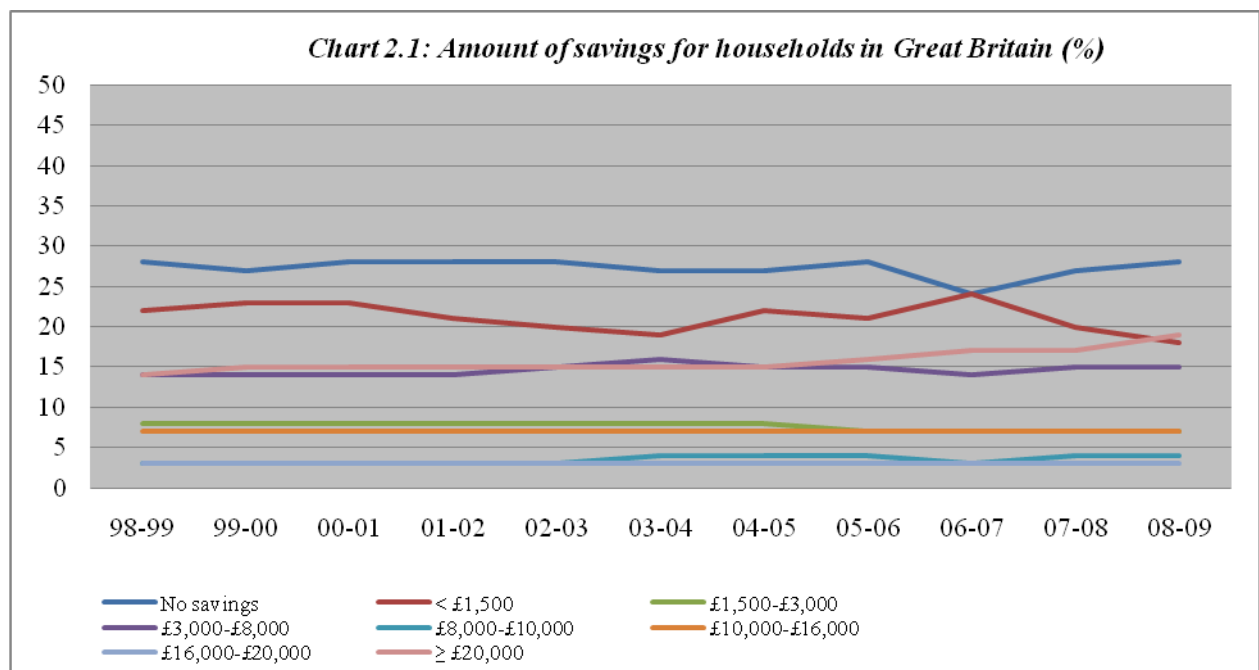
One of the key interventions to promote savings planned by the previous government was the Savings Gateway, a matched savings scheme, whereby the government matches funds saved through the scheme for households with an income up to a certain level. Since the Original survey in 2004, this scheme has been piloted a second time (in 2005) and it was due to be rolled out nationally July 2010. However, it has now been cancelled by the new Coalition government.

An evaluation of the second pilot found that there was an increase in the reported savings among the households participating in the scheme compared to those who did not participate, but that there was no evidence suggesting a positive impact on the net savings of households, suggesting a displacement effect (Harvey et al, 2007).

Another approach to increase the prevalence of savings, particularly, though not exclusively, aimed at low-income households has been the establishment of the Child Trust Fund in April 2005. Under this initiative, all children born on or after September 1st 2002 are given £250 to start a savings and investment account which cannot be touched until the child turns 18. Since then, the new Coalition government has announced that it will be phasing out this fund between August 2010 and January 2011.

Parents have one year to open an account, but many parents have failed to do so. After the one year deadline, the government steps in and opens an account with one of eleven providers of Child Trust Fund accounts. A concern is that many of these default accounts are not managed actively, or charge the maximum fee of 1.5% a year. So parents would usually get a better deal for their child if they looked into shopping around for the best account. Research has found that larger families, single parents and low-income households were less likely to use the voucher before its expiry date (Bennett et al, 2008).

Despite these initiatives, the propensity to save has remained largely stable over the past decade. Chart 2.1 displays the amount of savings for households in Great Britain, while Chart 2.2 shows the proportion of households with no savings by income group. (Table 2.5 displays the same figures.)



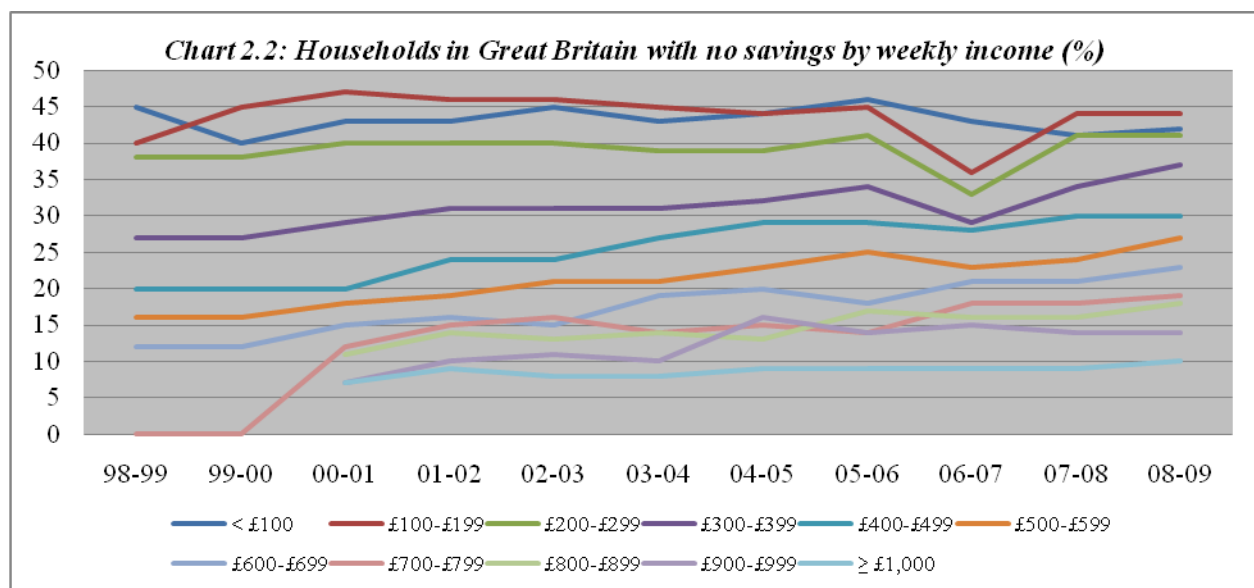


Table 2.5: Amounts of savings for households in Great Britain (%)

	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
No savings	28	27	28	28	28	27	27	28	24	27	28
< £1,500	22	23	23	21	20	19	22	21	24	20	18
£1,500-£3,000	8	8	8	8	8	8	8	7	7	7	7
£3,000-£8,000	14	14	14	14	15	16	15	15	14	15	15
£8,000-£10,000	3	3	3	3	3	4	4	4	3	4	4
£10,000-£16,000	7	7	7	7	7	7	7	7	7	7	7
£16,000-£20,000	3	3	3	3	3	3	3	3	3	3	3
≥ £20,000	14	15	15	15	15	15	15	16	17	17	19
Households with no savings by weekly income (%)											
	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
< £100	45	40	43	43	45	43	44	46	43	41	42
£100-£199	40	45	47	46	46	45	44	45	36	44	44
£200-£299	38	38	40	40	40	39	39	41	33	41	41
£300-£399	27	27	29	31	31	31	32	34	29	34	37
£400-£499	20	20	20	24	24	27	29	29	28	30	30
£500-£599	16	16	18	19	21	21	23	25	23	24	27
£600-£699	12	12	15	16	15	19	20	18	21	21	23
£700-£799	7*	7*	12	15	16	14	15	14	18	18	19
£800-£899			11	14	13	14	13	17	16	16	18
£900-£999			7	10	11	10	16	14	15	14	14
≥ £1,000			7	9	8	8	9	9	9	9	10

Notes: * Includes all households with incomes of £700 and above

The data suggests a remarkable stability in savings patterns in the last decade. Except for 2006-2007, around 28% of households have no savings whatsoever. The percentage of households with no savings – 27% – was identical for 2003-04 and 2007-08 and only increased slightly to 28% in 2008-2009.

The data on savings by weekly income is less clear. For the lowest income group the proportion of households with no savings has fallen from 45 to 41% since 1998-99 and from 43 to 41% since 2003-04. However, there is considerable variation from year to year for this group, in part because of a small and decreasing sample of households from this income group. For all other income brackets the likelihood of having no savings has increased.

Not surprisingly, the likelihood of having no savings increases as weekly income falls. Around 40-45% of households in the lowest three income brackets (all below the poverty line) have no savings, compared with around 9-16% for the highest three income brackets.

The data in Table 2.5 is likely to underestimate the extent to which people save as many save through informal means (Kempson and Finney, 2009), such as jars, overpayment of prepayment meters and Christmas hamper schemes. Nevertheless, there is a persistent and low propensity to save, especially among the lower-income groups. Moreover, in their review of the existing evidence and literature on saving, Kempson and Finney (2009) conclude that low-income households are especially unlikely to save for the medium and long-term.

The main causes for the low levels of saving include:

- *Life-stage factors:* The life-stage in which the household finds itself in is a powerful influence on the propensity to save. In particular, research suggests that youth, raising a family and retirement are periods characterised by low levels of savings (Kempson and Finney, 2009). This is because of low incomes (retired people and to some extent for households with children), fluctuating and unpredictable incomes and expenditure patterns (households with children) and attitudes (young people).
- *Change in circumstances:* People experiencing a change in their circumstances, such as ill health, relationship breakdown, purchase of a home and loss or change of job, are less likely to save.
- *Financial instability:* Fluid and unpredictable incomes and expenditure patterns, often due to tenuous links to the labour market and raising a family, make it more difficult to save regularly. Households whose lives are characterised by such financial instability are less likely to save formally (Kempson and Finney, 2009).
- *Affordability:* Households living on low disposable incomes are unsurprisingly less likely to save. These households live on a low income because they are unemployed or unable to work due to long-term sickness or disability. They may also have low disposable income due to heavy credit commitments or because they are remitting income abroad (Kempson and Finney, 2009).

The striking aspect of the list of causes of low propensity to save and low levels of savings is that they are all linked to structural factors or barriers. By structural we mean socioeconomic and demographic characteristics of household and individuals which are either non-changeable (e.g. age etc) or which have proven very difficult to alter (e.g. links to labour market etc).

2.6. Affordable credit and sub-prime lending

Another area in which the Government has invested considerable resources since 2004 has been in the provision of affordable credit. Unable to access loans from the mainstream banking sector, many households have to resort to high-cost credit provided by the so-called sub-prime sector.

The sub-prime sector is diverse, comprising home credit companies, licensed financial companies, sell-and-buy-back stores, pawnbrokers and instalment credit stores. The sector offers a wide and expanding range of financial products, including credit cards, unsecured personal loans and mortgages and pre-pay cards. The sub-prime sector principally caters for credit-impaired and higher risk borrowers who fail to qualify for loans or other products with mainstream financial institutions. The sector offsets this greater risk by charging higher interest rates and fees relative to the mainstream sector.

There are various estimates of the size of the sector. Ellis et al (2006) estimate that there are around 2.3 million users of high-cost licensed home credit lenders in the UK, equivalent to around 6% of the adult population. A review of the high cost credit sector by the Office of Fair Trading (OFT) found that in 2008 the sector made loans to customers totalling £7.5 billion (OFT, 2010).

A recent study of payday lending estimated that around 1.2 million adults in the UK took out payday loans in 2009 (Burton, 2010). The total lending of the payday loan sector was £1.2 billion and the industry's gross income was around £242 million in the same year (Burton, 2010). The same study also found that the average charges had risen from 15% in 2006 to 20% in 2009. In their study of UK pawnbrokers, Collard and Hayes (2010) estimated that the number of outlets had increased from 800 in 2003 to around 1,300 today, though much of this expansion has been fuelled by non-pawnbroking products, such as cheque cashing and payday loans. The sector has a loan book of around £192 million (Collard and Hayes, 2010).

So far, and unlike the US and many countries in the EU, the Government has chosen not to tackle this issue through legislation. On the contrary, the UK has among the most liberal regulatory frameworks for financial services in the world (Marshall, 2004), especially among developed nations (Reifner, 2007). The UK is one of the few countries in Western Europe without a cap on interest rates and there are no laws requiring disclosure of data on lending to low-income households and areas.

Despite campaigning from CDFA and other organisations for a UK Community Reinvestment Act¹ to force banks to disclose lending and invest in the UK community finance sector, both New Labour and the Conservatives are unlikely to support such legislation. This is because it is not seen as appropriate as the banking sector is not as regional or local as in the US and UK governments have generally been averse to interventionist policies vis-à-vis the financial sector.

The UK Government has seen the lack of competition in provision of credit to low-income, financially excluded consumers as the key obstacle to accessing affordable credit, rather than redlining or discrimination on behalf of banks (HM Treasury, 2004). Since the last survey was conducted, competition in the home-credit sector may have decreased further as three large providers have withdrawn from the market (London

¹ The US CRA involves an obligation for banks to meet the needs of low and moderate income borrowers and neighbourhoods. Specifically, the act involves disclosure of lending and investment behaviour of financial institutions, rating system of behaviour and sanctions against non-compliant institutions.

Scottish Bank, the Park Group and Cattles). Interestingly the APR for a typical loan from Provident, the market leader, increased from 177% to 292.2% in the same period.

The Government has sought to bridge this gap through increasing the supply of affordable credit through the third sector thereby increasing competition. Since 2005, the Government has funded such provision through the Growth Fund which consisted of £42 million for the period 2005-2007 and £38 million for 2008-2011. Between July 2006 and February 2010 this has enabled third sector lenders to make nearly 207,000 loans to a value of £89 million in England (DWP website).

In 2007 research was conducted for the Financial Inclusion Taskforce looking at gaps in provision in areas with great demand (Experian, 2007). Of the 408 Local Authority areas in England, Wales and Scotland the research has identified 25 “red alert” areas in the highest need of new affordable credit provision, and 56 “amber” areas, which are next in the priority order. Part of the Growth Fund has been targeted at these areas. The Growth Fund is currently under evaluation and support for credit unions and CDFIs beyond 2011 is uncertain.

Some work has also been conducted in trying to reach poorer clients. Because typically Growth Fund lenders rely on electronic transfers or payment of cash at branch offices, it may not cater to all customers of the home credit providers, a key target group for the third sector lenders. In light of this, Kempson et al (2009) examined the potential of not-for-profit doorstep lending. Though in principle feasible to set up a stand-alone not-for-profit home credit provider, it would offer relatively small savings for customers compared with existing providers and would arguably run counter to trying to graduate clients to the mainstream sector.

2.7. Insurance

Whilst the access to insurance received considerable attention in the report of PAT 14, insurance itself has been largely neglected until recently. In 2006 a working group on insurance under the Financial Inclusion Taskforce was established to work specifically on obstacles to broadening the access to affordable insurance products among low-income households.

The main focus of policy on insurance has been on increasing access to home contents cover for households and individuals living in rented accommodation by working with social landlords to extend the outreach of insurance-with-rent schemes, the availability to which has been patchy (HM Treasury, 2007) and the uptake of which has been limited (Hood et al, 2005).

In 2006, the National Housing Federation and the social housing insurance broker Jardine Lloyd Thompson launched My Home, an affordable, home contents insurance product, offered through social housing landlords. Per the second quarter of 2009, My Home was offered through 280 social housing landlords and it had around 16,000 tenant policy-holders (NHF, Undated).

The Association of British Insurers (ABI) has identified motivating staff and fitting the marketing and selling of insurance alongside their existing tasks as something that needs to be tackled. With this in mind, ABI is currently working with the DWP to develop a training toolkit for housing staff through the Financial Inclusion Champions scheme.

Yet despite the renewed emphasis on extending the coverage of Home Contents Insurance (HCI), historical data suggests that the ownership of HCI has remained

fairly stable over the last 15 years. The ABI (2007) reports that despite the fall in costs in real terms of around 40% from 1994 to 2007, the proportion of the population with home contents and building insurance has remained relatively stable.

In particular, ownership of HCI has remained low among social housing tenants. Between 1994/1995 and 2003/2004 the proportion of registered social landlord tenants without HCI fell from 63.4% to 59.2%, but the proportion of council tenants increased from 54.4% to 60.8% (Demos and Safe, 2005). Data from the most recent Family Resources Survey suggests that the proportion of social tenants without insurance has remained stable at around 64%.

There is a wide range of factors accounting for the low ownership of both life and HCI policies among households living on low incomes and in rented accommodation. On the demand side, there are three main factors reducing the propensity of households to take out insurance policies.

First, like other financial products, insurance policies are often not appropriately designed to accommodate the needs and preference of low-income consumers. Premiums are often too high and there is often no allowance for lapses.

Second, the channels through which insurance is sold and distributed are likely to discourage low-income consumers from purchasing insurance policies. Insurance is often sold online or telephonically and serviced using direct debits. Yet, research indicates that these households often prefer a more personalised, face-to-face delivery and servicing of financial products (Collard et al, 2001; IPSOS Mori, 2007).

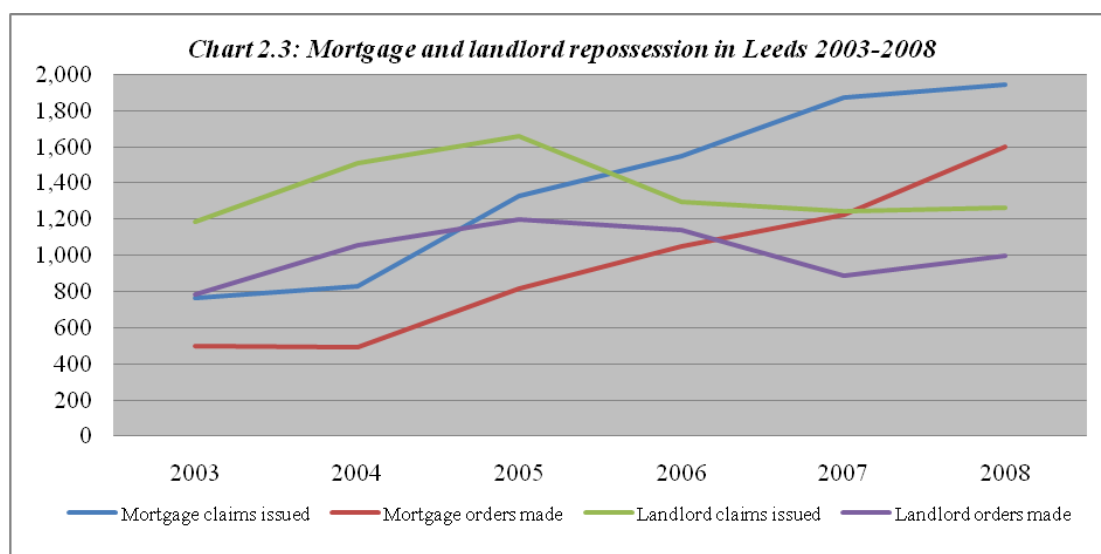
Finally, a low degree of financial literacy and understanding of insurance products may make low-income households less likely to solicit such products (Collard et al, 2001). In particular, the Insurance Working Group (IWG), established by the Financial Inclusion Taskforce, highlights the lack of understanding of the benefits of insurance and mistrust of insurance companies as important demand-side barriers to accessing insurance for low-income households (IWG cf. HM Treasury, 2007).

On the supply-side, the high risks involved in delivering insurance to low-income households have worked as a barrier for the insurance industry in delivering insurance to these households. Households living on council estates are twice as likely to be burgled compared to non-council estate households (Safe and Demos, 2005).

2.8. Over-indebtedness

Over-indebtedness is a complex phenomenon closely linked to the financial inclusion agenda. It can be caused and sustained by a host of factors, including high finance costs, low income, life-cycle events, changing circumstances, income shocks and expenditure hikes. This issue has become particularly prominent since the onslaught of the credit crunch and the recession.

One of the key measures of indebtedness is landlord and mortgage repossessions (Chart 2.3).



Claims issued refers to the moment when a claimant begins an action for an order for possession of residential property by issuing a claim in a county court. Orders made refers to when a court, following a judicial hearing, grants an order for possession immediately entitling claimant to apply for warrant to have defendant evicted. However, even where a warrant for possession is issued, the parties can still negotiate a compromise to prevent eviction.

Mortgage claims and orders have increased steadily and considerably since 2004. From 2003 to 2008 the number of mortgage claims and orders rose by 154% and 220% respectively. There are three main factors accounting for the rise in mortgage repossession claims and orders:

- *Rising financing costs:* Between 2003 and 2007 there was a considerable growth in average interest rates increasing the financing burden for many mortgage holders. The average interest rate for a standard variable mortgage rose from 4.19% in 2003 to 6.32% in 2007 (CML data). This started falling again in 2008 and averaged 4.32% in 2009 (CML data).
- *Falling affordability:* The median mortgage advance-to-income multiple for first-time buyers and all buyers in the UK – a key measure of affordability – rose by over 15% from 2003 to 2008.
- *Rising unemployment:* While unemployment in Leeds remained low and stable from around 2004 until quarter two of 2008, the number of job claimants increased by over 20% from quarter two of 2008 to quarter three of 2009. This is likely to have put further upward pressure on mortgage repossessions.

Landlord possession claims and orders in Leeds increased from 2003 to 2005, fell from 2005 to 2007 and then increased slightly in 2008. Unlike homeowners, tenants have not experienced the same rise in living costs (linked to the rise in interest rates). Moreover, the rise in housing prices will not have affected tenants to the same extent.

The trends in possession claims and orders are likely to reflect changes among social housing landlords. Possession actions by social landlords increased considerably in the decade leading to 2003 due to three factors (Office of the Deputy Prime Minister, 2005):

- A rise in multiple indebtedness;

- Reduced responsiveness of housing benefits systems, due to increased demands on claimants and staff following the introduction of the Housing Benefit Verification Framework in 1998;
- A rise in employment rates among social tenants, especially in low-paid, temporary work, which often led to discontinuation of housing benefits.

Nationally possession claims have been falling since 2003 as staff and tenants have adjusted to the changes in the housing benefit system as social housing landlords have used more staff discretion in dealing with rent debtors (Office of the Deputy Prime Minister, 2005).

Following the credit crunch and the rise in repossessions, the UK government has introduced two main schemes to support struggling homeowners:

- *Mortgage Rescue Scheme*: A £200m package of measures designed to prevent some of the most vulnerable families losing their homes. This occurs either through RSL provision of equity loan or government mortgage to rent. It aims to aid 6,000 homeowners over the next two years. As part of the 2009 budget, the scheme was extended to help people in negative equity.
- *Homeowners Mortgage Support*: Scheme announced April 21 2009 to assist homeowners experiencing temporary drops in income. Under this scheme, eligible homeowners will be able to make smaller mortgage repayments for up to two years, without the risk of losing their homes.

More generally, governments have funded free-to-client debt advice. The largest government funding pot for face-to-face money advice is the Financial Inclusion Fund, which in its first round provided £47.5 million to recruit and train 500 debt advisers, and which provided advice to nearly 70,000 households (HM Treasury, 2007). For the period from 2008 to 2011, nearly 30% of the £135 million Financial Inclusion Fund is destined to generic money advice (HM Treasury, 2007). The future of this fund after the current fund expires in March 2011 has yet to be declared.

2.9. Fuel poverty

Fuel poverty – the inability to afford sufficient warmth for health and comfort – is a serious and debilitating form of deprivation and has been a concern for government since 1999. Fuel costs may crowd out other essential spending, such as food and clothing.

The most widely accepted definition of fuel poverty is where a household needs to spend 10% or more of its income to meet fuel costs to ensure that the home is heated to an adequate standard.² In England there are around 4 million households which can be classified as fuel poor, of which 3.2 million are classed as vulnerable (Table 2.6). There has been a sharp increase in fuel poverty in England since 2005 in particular.

Table 2.6: Fuel poverty in England (number of households)

	2003	2004	2005	2006	2007	2008
Households in fuel poverty	1.2m	1.2m	1.5m	2.4m	2.9m	4.0m
Vulnerable households in fuel poverty	1.0m	1.0m	1.2m	2.0m	2.3m	3.2m

Source: Fuel Poverty Advisory Group (for England) Sixth Annual Report 2008

² According to the World Health Organisation adequate warmth is 21 degrees Celsius in the living room and 18 degrees Celsius in other rooms.

There are three main factors leading to fuel poverty (DEFRA, 2008):

- *Energy efficiency:* The lack of efficient heating and effective insulation is a contributing factor to fuel poverty as it increases the cost of heating a house. In 2006, 28% of English households live in non-decent homes (DEFRA, 2008).
- *Energy prices:* Energy prices have risen considerably over the past five years or so. In real terms, the price of gas increased by 42% and the price of electricity increased by 29% from 2003 to the end of 2007 (Fuel Poverty Advisory Group (for England), 2007). Households who use prepayment meters pay more for their fuel than households paying direct debit or in cash. Per year, a prepayment customer pays £145 more than a customer on direct debit (Fuel Poverty Advisory Group (for England), 2007). The difference between these customer groups has also increased over the past three years (Fuel Poverty Advisory Group (for England), 2007).
- *Household income:* Living on a low income is one of the most important factors driving fuel poverty (Conaty and Bendle, 2002). Nearly 80% of the fuel poor are classified as vulnerable.

There are several groups which are especially vulnerable to living in fuel poverty. The elderly are especially likely to be fuel poor. They spend more time in the home and they live on a low, fixed income. It is estimated that one in three pensioner households live in fuel poverty (Thompson, 2008). Households with children, especially single parent households and households with disabled household members are also vulnerable. A common denominator for many of the fuel poor is that they live on a low income (Conaty and Bendle, 2002). They also often lack access to and are less prone to using more advantageous methods of paying for fuel, such as direct debit.

The UK government response to fuel poverty has been to develop three types of interventions (DTI, 2001).

First, the government has devised a number of interventions to increase the energy efficiency of the housing stock of England. Salient interventions include:

- *Energy Efficiency Advice Centres:* The Energy Savings Trust and Energy Saving Scotland now have 21 centres across the UK offering people advice on a range of issues relating to energy efficiency.
- *Warm front:* Warm Front is a key tool in tackling fuel poverty in private sector housing. Grants of up to £3,500 (£6,000 where oil, low carbon or renewable technologies are involved) are available to households who own or rent privately and who receive means-tested benefits. Between June 2000 and April 2008, 1.7 million received Warm Front grants (DEFRA, 2008).
- *Carbon Emissions Reduction Target:* CERT is an energy supplier obligation under which energy suppliers must deliver measures that will reduce carbon emissions by a certain amount. For the period of 2008-2011, it is estimated that this will lead to an investment by energy companies of around £2.8 billion (DEFRA website), 40% of which has to be targeted at vulnerable and low-income households.
- *Decent Homes Standard:* This standard has a component relating to efficient heating and effective insulation. The Department of Communities and Local Government expects 95% of all social housing in England to meet or exceed the standard by 2010. A specific deadline must be agreed for the remaining 5% after that.

A second group of interventions has centred on exerting downward pressure on fuel bills by ensuring a transparent and competitive energy market. The energy supplier

regulator Ofgem has an important role in ensuring that this happens. One of the key issues Ofgem has sought to address is the unfair price differentials between prepayment and direct debit. Recently Ofgem has proposed license conditions that differentials must be accounted for by cost and a ban on unjust price discrimination.

A final government policy relating to fuel poverty is increasing the disposable income of fuel poor households. Salient interventions include:

- *Tax credits:* Tax credits are payments from government targeted at the working poor and low-income households with children.
- *Winter fuel payment scheme:* Winter fuel payment is an annual payment for people over 60. Around 12 million people in the UK received such a payment in the 2007/08 winter (DEFRA, 2008).
- *Cold weather payments:* Payments to poorer pensioners and other eligible households in weeks of extremely cold weather. Around 500,000 such payments are made annually (DEFRA, 2008).
- *Benefit entitlement checks:* Benefit entitlement checks are part of fuel poverty initiatives such as Warm Front.

2.10. *Implications for survey results*

So far we have presented and discussed the trends and changes in financial exclusion and policy since 2004. But what are the implications for the survey analysis? How will these trends have affected the Repeat survey results for 2010 compared with the Original survey of 2004? Based on national, regional and local trends and changes since 2004, we would expect the following changes of the survey:

- *Access to financial products linked to credit scoring:* Given the tightening of lending policy and the rise in unemployment nationally and locally, one would expect to see an increase in the proportion of credit impaired households (i.e. people with a bad or impaired credit history). In turn this would likely lead to a reduction in the access to and ownership of credit-scored financial products (e.g. loans, insurance etc).
- *Banking and transaction services:* Judging by the national progress on reducing the number and proportion of unbanked households, we expect to see increased bank account ownership among respondents, though cash-based budgeting and money management (e.g. use of pre-payment meters, aversion to use of direct debits etc) is likely to persist.
- *Over-indebtedness:* The picture on over-indebtedness is likely to be more mixed. National evidence suggests that households that can are reducing their debts, while households experiencing reduced earnings from redundancies or reduced working hours are likely to be struggling with their debts. Based on national and local statistics, we would expect to see a larger proportion of homeowners struggling to service their mortgage. However, such households are unlikely to want to participate in a survey.
- *Savings and assets:* If national and regional statistics are anything to go by, one would expect little or no change in the propensity to save, especially for low-income households.
- *Home contents insurance:* Similarly national statistics suggest that HCI ownership rates among low-income households and social housing tenants are persistently low. There would be little reason to suggest any change among survey respondents since 2004.

- *Fuel poverty*: National fuel poverty has been on the rise and there has been little change in terms of the use of pre-payment meters. We would expect the survey results to reflect this.

3. Evolution of financial exclusion in Leeds since 2004

3.1. Introduction

This chapter presents and discusses the results of the analysis of the survey data. Throughout the chapter we make references to three separate samples:

- *Original Survey*: In 2004 a survey was conducted of 410 households in deprived neighbourhoods.
- *Repeat Survey*: In 2010 the same survey was conducted with 602 households in the same neighbourhoods to see if the nature and magnitude of financial exclusion had changed since the last survey was conducted
- *Extended survey*: In 2010, a further 300 households in less deprived neighbourhoods were surveyed. This latter sample focused on homeowners and intended to provide information about the extent of financial exclusion arising from the economic recession in recent years.

The same questionnaire was used on all three samples (the Questionnaire can be found in Appendix C). The survey methodology is detailed in Appendix A.

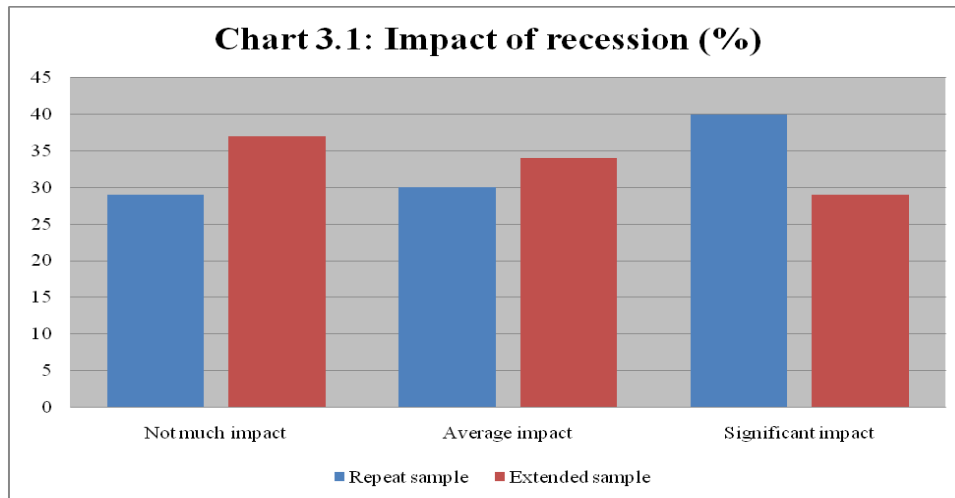
The remainder of the chapter is organised as follows. After discussing the impact of the recession, the chapter goes on to analyse and discuss the evolution in the access to and use of financial services in Leeds since 2004. It should be noted that comparing the results of the two surveys is complex due to the impact of the recession. Any changes which indicate greater degrees of financial exclusion does not necessarily mean any interventions have had no impact, rather the degree of exclusion could have been even greater were it not for the interventions. An overview of the sample is can be found in Appendix B.

All differences termed as significant are statistically significantly different and refer to the sampling tolerance table in Appendix A.

3.2. The impact of the recession

The recession is likely to have had considerable impact on the Repeat and Extended samples and thus on any observed differences between the Repeat and the Original samples. This section discusses the impact of the recession for the Repeat and Extended sample.

Chart 3.1 displays perceived impact of the recession on Repeat and Extended survey respondents.



The respondents were asked to rate the impact of the recession on household finances on a scale from 1 to 10 (where 1 is no impact at all and 10 is a great deal of impact). Chart 3.1 displays these scores grouped into not much impact (1-3), average impact (4-7) and significant impact (8-10).

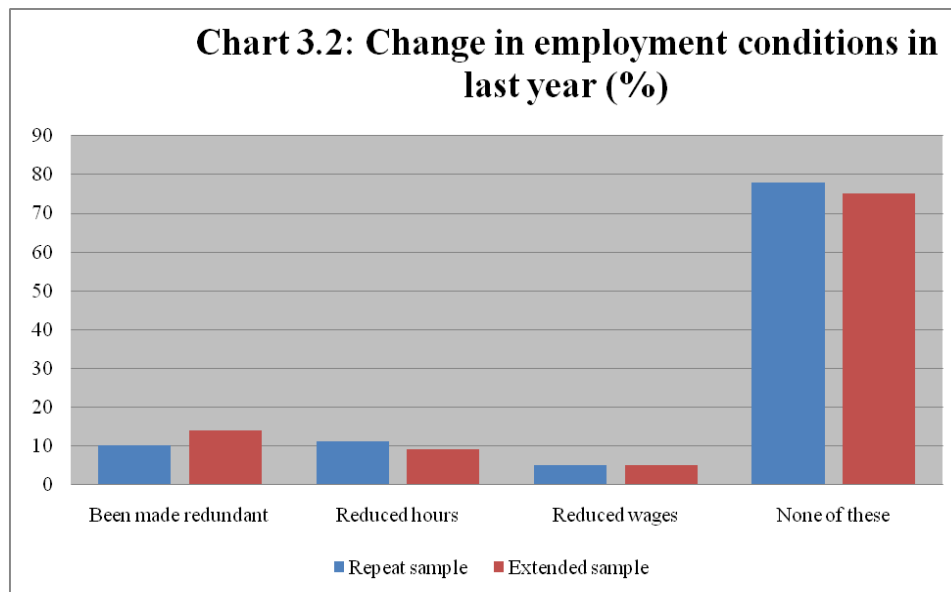
The majority of the respondents of both the Repeat and Extended samples thought the recession had impacted on their finances to some degree. Around 30% of the Repeat sample and 37% of the Extended sample stated the recession had not had much impact on their finances. Respondents in the Extended survey found the impact of the recession less with only 30% reporting a significant impact compared with 40% for the Repeat survey respondents. Respondents with children, particularly in the Repeat sample, were more likely to say the recession had an impact on their finances.

All respondents rating the impact on their finances as 5 or above were asked what this impact had been. The main reasons were price rises making it more difficult to pay bills and someone in the household being made redundant. Respondents in the Repeat sample were more concerned about rising prices but the proportion of respondents who said someone had been made redundant or could not find a job was similar.

A total of 11% in the Repeat sample and 10% in the Extended sample said they had problems with accessing finance as a result of the credit crunch. Almost all of these people had not been able to access credit they wanted, or already knew that they would not be able to get any credit.

When asked about the impact of the recession a number of respondents mentioned being made redundant or having their wages reduced.

Chart 3.2 shows the change in employment conditions in the past 12 months for the Repeat and Extended sample.



One in ten respondents in the Repeat survey and 14% in the Extended sample said someone in their household had been made redundant in the previous twelve months (some of whom had found another job). Around 11% of respondents in the Repeat sample and 9% on the Extended sample had their working hours cut back and 5% in both samples said their wages or salary had been reduced. This means that about one in four households across both samples had experienced redundancy, reduced hours or a cut in pay during the previous twelve months.

3.3. Changes in financial exclusion in Leeds since 2004

Having discussed the potential impact of the recession, this section analyses and discusses the changes in terms of the extent and nature of financial exclusion since 2004.

3.3.1. Banking and transaction services

The access and use of banking and transaction services are at the heart of the financial inclusion agenda. Based on the review of the national evidence and statistics, we would expect to see a rise in bank account ownership and a persistence of cash-based money management.

Table 3.1 compares the access and use of banking and transaction services across the three samples.

Table 3.1: Access and use of banking and transaction services (%)

	Original sample	Repeat sample	Extended sample
Account ownership			
Bank account	70	81	95
Current account	54
Basic bank account	16
Credit card	25	21	40
Store card	9	5	10
Refusal bank account	16	9	8
ATM usage			
Never use ATM	...	26	16
Use free ATM	...	67	78
Use charging ATM	...	1	1
Use both	...	6	6
Account usage			
Direct debit for fuel bills	18	26	61
N	410	594	300
Account facilities			
Debit card	31	89	96
Check book	32	27	57
Overdraft facility	...	33	55
Direct debits	...	70	90
N		483	284
Receipt benefits			
Into bank account	...	72	86
Collected using POCA	...	27	12
Other	...	3	0
Number respondents		462	174

A total of 81% of respondents in the Repeat sample said that they had a bank or building society current account. This is a significant increase from the 70% found in the Original survey. Many of those without a bank account use the Post Office Account Card (POCA). A total of 96% of the respondents in the Repeat survey have either a bank account or a POCA. This is a significant increase from the 70% of respondents who either had a bank account or POCA in the Original survey.

This increase most likely reflects increased awareness of the basic bank account and the push for benefits to be paid into bank accounts. Half of the Repeat survey respondents said they had heard of this type of account, a significant increase from the 36% found in the Original sample. Awareness in the Extended sample was similar at 48%. In the Repeat and Extended samples, nearly all respondents in receipt of benefits had these paid into a bank account or POCA. In the Extended sample, 85% of respondents had a bank account. Again owner occupiers (99%) were the most likely to have an account compared with 81% of those in social housing.

In the Repeat survey, the majority of owner occupiers (96%) had a bank account. The majority of couples with children (95%) also had a bank account. The groups least likely to have a bank account were men under 60 living alone (66%) and pensioner only households (69%). In the Original survey a higher proportion of owner occupiers

(86%) had a bank account, than social housing tenants (66%). People aged over 60 were the least likely to have a bank account (61%).

In the Repeat survey, the main reasons for not having a bank account were that people had no money to put into an account (54% of those without an account) or that there was no point as they used the post office to collect their pension or benefits. The reasons were largely the same in the Original survey.

9% of respondents in the Repeat survey and 8% in the Extended sample said that in the last three years they or someone in their family had tried to open an account and been refused. This is a significantly lower percentage than in the Original survey when 16% of respondents had tried to open an account and been refused, with 8% saying this was within the last two years.

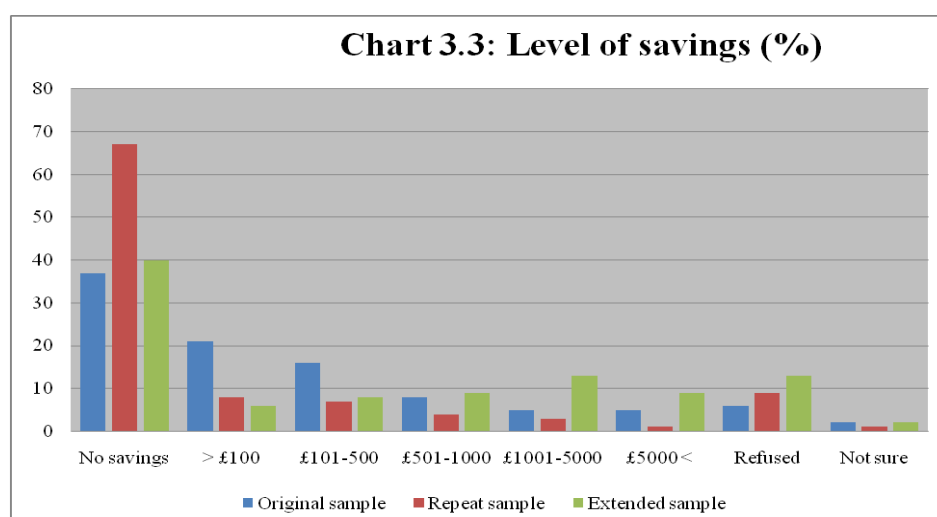
There is also a significant increase in the percentage of households paying fuel bills using direct debits since 2004. This is a positive and unexpected finding. National evidence suggests that while bank account ownership has risen, the use of cash-based money management and bill payment has persisted.

In terms of ATMs, only 1% of both the Repeat and Extended samples relied exclusively on fee-charging ATMs, while 6% sometimes used fee-charging ATMs. Overall, respondents in the Extended sample were slightly more likely to use a cash machine compared with the Repeat survey respondents.

3.3.2. and assets

Increasing the propensity to save and the asset endowment of households has been a key part of the financial inclusion agenda of the UK government. Households and individuals who save may be in better position to cope with income shocks, life-cycle events (e.g. old age and retirement) and expenditure hikes without relying on the public safety nets. All available statistics suggest that, despite numerous government interventions and tax incentives, there is a long-term decline in both level of savings and propensity to save.

Chart 3.3 compares the level of savings for the Original, Repeat and Extended sample.



The level of savings is well below the national average for each of the Original, Repeat and Extended surveys. In terms of the Repeat survey respondents, 75% had no savings at all or savings of below £1,000. In comparison, nationally 34% of the population have no savings at all and 20% have savings of less than £1,500 (FRS

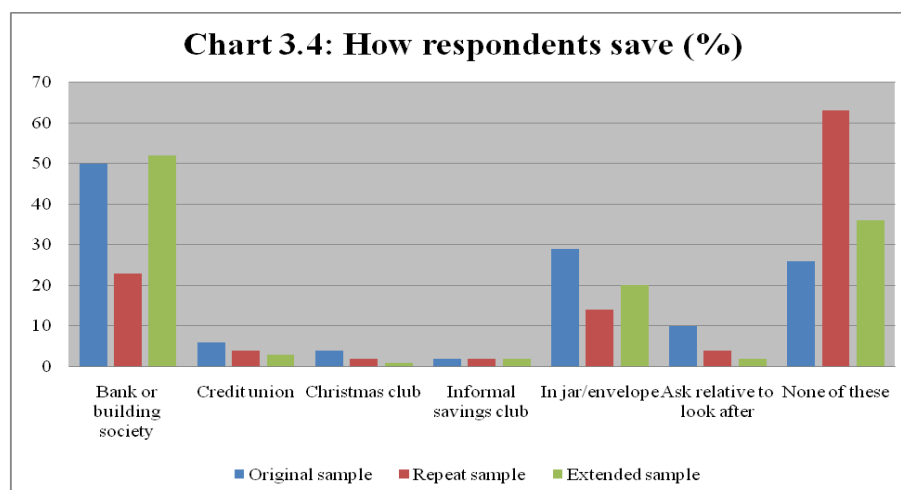
2007/2008). Similarly, 82% of the Original survey respondents had no savings at all or savings of below £1,000. At the time 28% of the national population had no savings at all and 21% had savings of less than £1,500 (FRS 2001/02).

Respondents to the Repeat survey were significantly more likely to have no savings compared with the Original survey respondents. While 37% of the Original survey respondents had no savings, in the Repeat survey this had increased to 67%. Levels of savings fell across all levels from 2004 to 2010.

It is interesting to note that a similar proportion of households in the Extended sample had no savings relative to the Original sample. This may suggest that financial exclusion has been on the rise in less deprived communities. In the Extended sample, 40% had no savings at all with a further 6% having less than £100. The level of savings of those in social housing in the Extended survey area was much the same as in the Original area but owner occupiers and privately renting tenants had slightly higher levels of savings than those in the Original sample.

92% of lone parents in the Repeat survey had no savings at all or had less than £100. Owner occupiers were more likely to have some savings than other tenures. A total of 51% of owner occupiers had no savings at all compared with 83% of social housing tenants and 84% of those renting privately. 85% of workless households had no savings at all or less than £100.

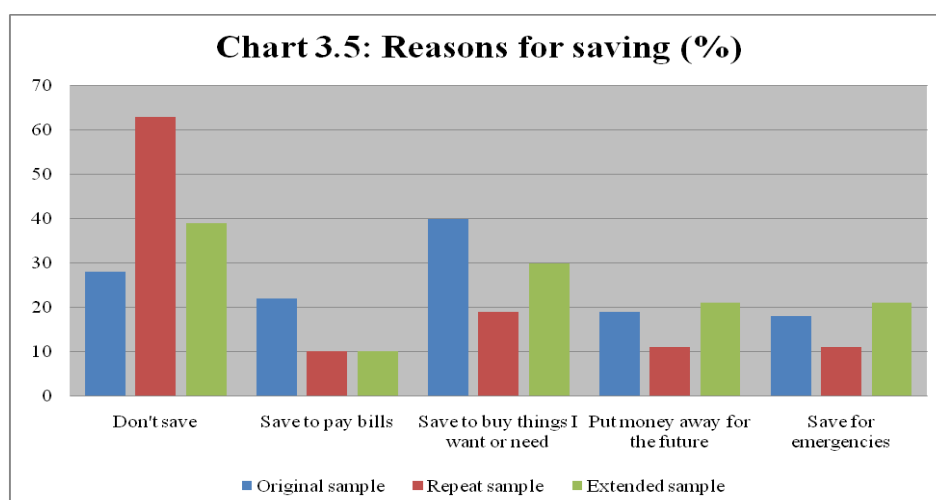
Chart 3.4 compares how respondents save.



There is a significant drop in the likelihood of saving with a bank or building society. Just under a quarter of the Repeat sample had a bank or building society savings account, compared with half of the Original survey respondents. On the other hand, there has also been a decrease in the number of people using informal savings methods, such as saving in jars and envelopes or by asking relatives to look after money. There are no significant changes across the other ways of saving. There is a slight decrease in the proportion of respondents saving with a credit union.

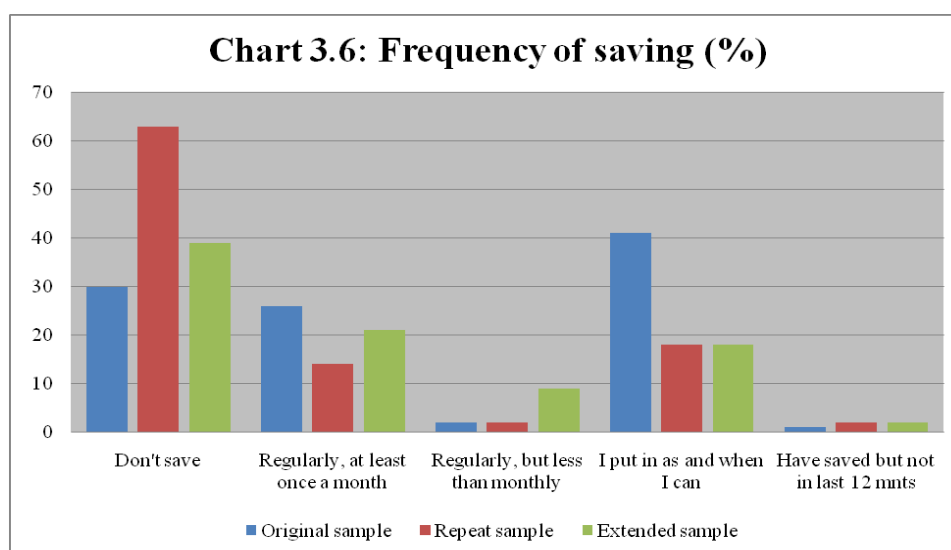
It is worrying to note that the respondents of the Extended sample, generally more affluent than the Original and Repeat survey samples, are only slightly more likely to save by using a bank or building society account than the respondents of the Original survey. In addition they are more likely to save money in a jar/ envelope than the Repeat sample. Further, the Extended sample respondents are significantly less likely to save, in any form, compared with the Original survey despite being more affluent.

Chart 3.5 compares the reasons for saving.



Overall, nearly two in three of the Repeat sample did not save at all (63%), which is twice as many as the Original sample. Across all purposes for saving, a significantly greater proportion of the Original survey respondents saved compared with the Repeat sample. The largest fall is in the category “saving to buy things I want or need.”

Chart 3.6 compares how often respondents save.



There is a significant drop in the proportion of respondents who save regularly, and especially, those who save as and when they can. The proportion of respondents saving “as and when I can”, fell from 41% to 18% from the Original to the Repeat survey. Again the respondents in the Extended sample were not any more likely to save regularly than the Original and Repeat survey respondents. On the contrary, they are, if anything, less likely to save regardless of frequency.

The significant drop in the propensity to save, the frequency of saving and also the level of saving from the Original to the Repeat survey is most likely a function of the recent economic crisis and rising living costs for low-income households (e.g. rising fuel costs). The fact that the less deprived respondents in the Extended sample are also less likely to save than the Original survey respondents suggests that this is a problem which goes beyond the traditional group of financially excluded.

3.3.3. Affordable credit and sub-prime lending

Enabling low-income households to access affordable credit at the expense of sub-prime borrowing has been a key priority for the Government. As research by Kempson et al (2009) suggests, the preference for home collection of payments increases the cost at which loans can be delivered. Moreover, their preference for cash payments as opposed to electronic transfers is an important barrier to graduation to the mainstream financial sector. This is not only because it is the only way in which banks will accept repayments but also because it is a means of building a credit score which is also essential to access bank lending.

Table 3.2 compares borrowing and credit exclusion experienced by the respondents.

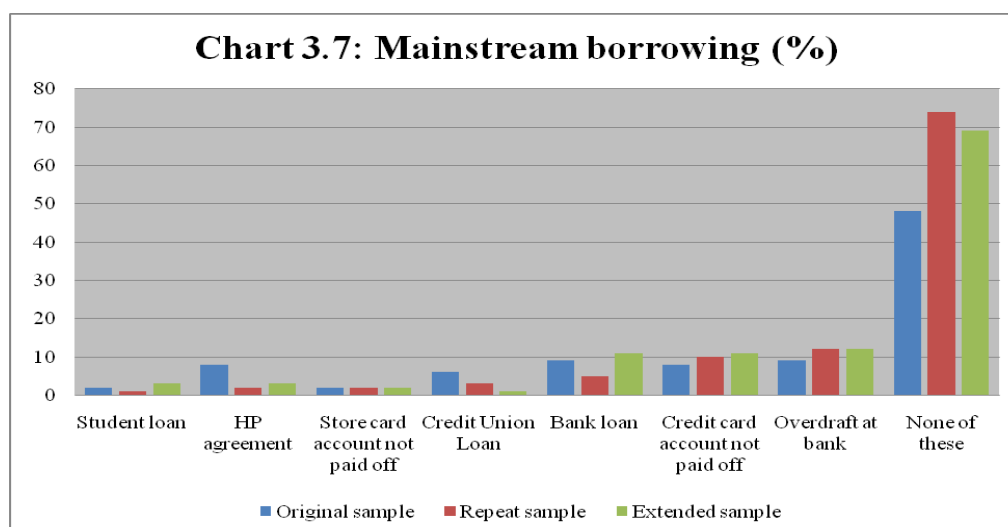
Table 3.2: Borrowing and credit exclusion (%)

	Original sample	Repeat sample	Extended sample
Borrowing			
Mainstream borrowing	35	26	31
Sub-prime borrowing	31	28	24
Card ownership			
Credit card	25	21	40
Store card	9	5	3
Credit exclusion			
Refused credit	9	14	11
Number respondents	410	594	300

Since 2004, there has been a fall in the proportion of households with a credit card and a significant decrease in the proportion of households with store cards. In the Repeat survey, a fifth of respondents (21%) said they had a credit card and 5% had a store card (that is a credit card to use in a specific shop), compared with 25% and 9% respectively in the Original survey. A total of 22% of the Repeat survey have either a credit card or a store card. A significantly higher proportion of households had credit cards (40%) in the Extended sample compared with the Repeat and the Original survey respondents. This is not surprising given that the respondents of the Extended survey were more likely to be in employment and be on higher incomes.

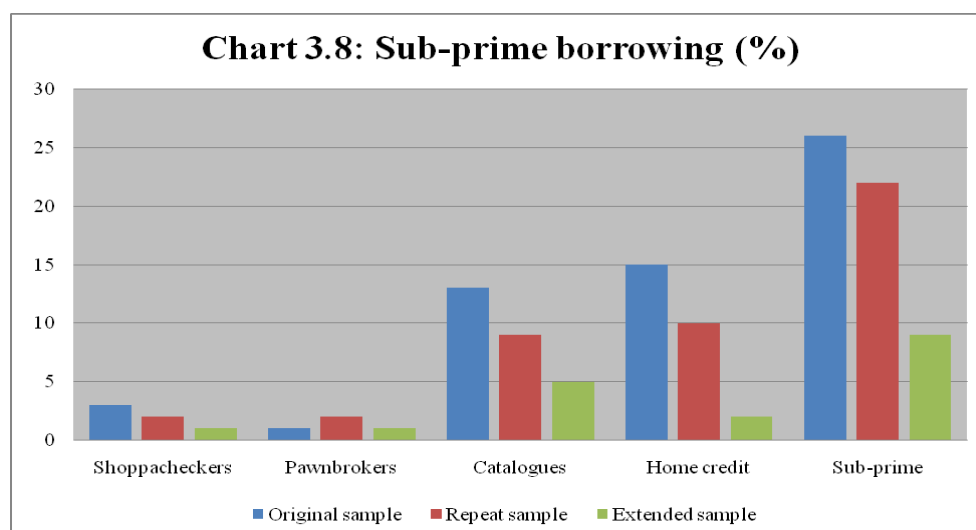
Overall there is a significant fall in mainstream borrowing from 2004 to 2010. The respondents in the Extended sample were also less likely to have mainstream borrowing compared with the Original survey respondents, albeit less pronounced than the difference between the Original and Repeat surveys. Coupled with the significant rise in the number of respondents having been refused credit in the Repeat survey compared with the Original Survey, this would suggest an increase in credit exclusion possibly due to a tightening of lending policy by lenders.

Chart 3.7 compares the sources of mainstream borrowing the respondents currently have, excluding mortgages.



The proportion of households using mainstream lending has fallen significantly since the Original survey. In 2004, just over 50% of respondents had some form of mainstream credit compared with less than 30% in 2010. Compared with the Repeat survey, a significantly higher proportion of the Original survey respondents had an HP agreement (8% compared with 2%) and a bank loan (9% compared with 4%). It is interesting to note that also the respondents of the Extended survey, who are generally less deprived than the Original and Repeat survey respondents, are less likely to have mainstream borrowing compared with the Original survey respondents.

Chart 3.8 compares the sources of sub-prime borrowing the respondents currently have.



There has been a fall in sub-prime borrowing since the Original survey. In 2004, 26% had some form of sub-prime borrowing. In the Repeat sample this figure had fallen to 22%. Most notably there has been a significant fall in the percentage of respondents using home credit and catalogue credit. Sub-prime lenders have also been affected by the financial and economic crisis and it is possible that they in response have tightened their lending criteria excluding many low-income households they would have served in the past. The Extended sample respondents are less likely to resort to

sub-prime borrowing. This is probably because they are more likely to have credit cards which they may be able to resort to.

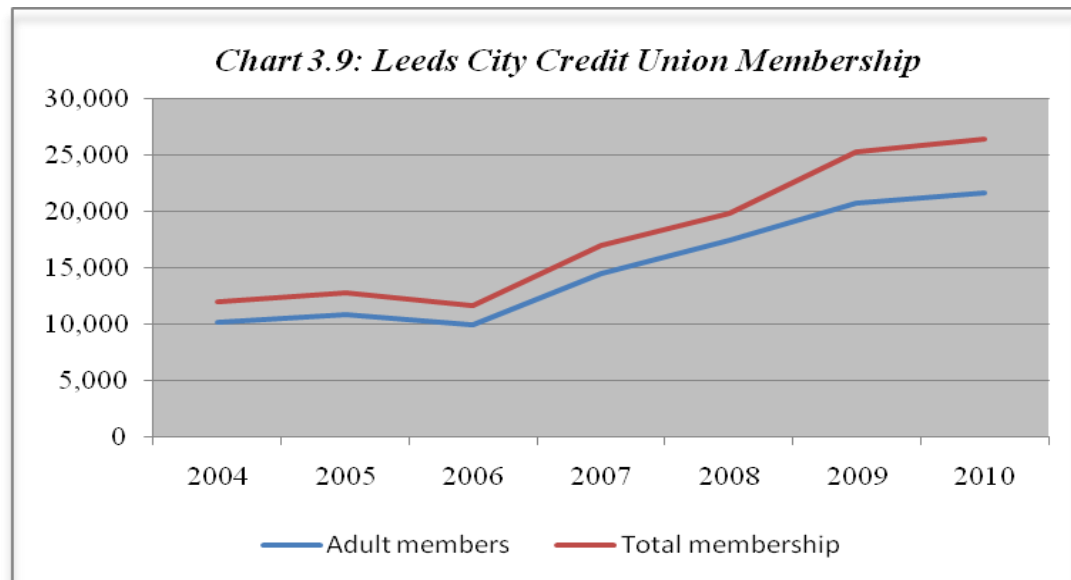
Table 3.3 compares awareness and membership of the credit union.

Table 3.3: Awareness and membership of credit union (%)

	Original sample	Repeat sample	Extended sample
Heard of credit union	30	52	45
Member of credit union	6	9	5
Number of respondents	410	594	300

There has been a significant increase in awareness of the credit union since 2004. Just over half (52%) of the Repeat sample had heard of Leeds City Credit Union which is an increase from the 30% found in the Original sample. A total of 9% of respondents in the Repeat survey and 5% in the Extended sample said they were members of the Credit Union. This is an increase from the 6% found in 2004.

While the survey suggests that membership rates have not increased, the membership of Leeds City Credit Union has increased since the Original survey was conducted in 2004 as is depicted in chart 3.9.



The number of adult members had more than doubled since 2004. Today the credit union has more than 21,500 adult members and 26,000 members if we include junior accounts and members under 18 years of age. In 2004 the same figures were 10,000 and 12,000 respectively.

3.3.4. Insurance

Despite the renewed emphasis on extending the coverage of Home Contents Insurance (HCI), historical data suggests that the ownership of HCI has remained fairly stable over the last 15 years. The ABI (2007) reports that despite the fall in costs in real terms of around 40% from 1994 to 2007, the proportion of the population with home contents and building insurance has remained relatively stable. In particular, ownership of HCI has remained low among social housing tenants and low-income households.

Table 3.4 compares HCI ownership rates for the respondents.

Table 3.4: Home Content Ownership by group (%)

	Original sample	Repeat sample	Extended sample
Total	39	32	69
Owner	74	70	86
Social housing	35	22	24
Private rented	26	4	39
18-29	36	16	40
30-44	41	33	70
45-59	59	39	80
60+	54	49	92
Lone Parent	31	14	26
Couple with children	36	40	74
Working household	59	46	79
Workless household	28	20	52
White	48	33	71
Asian	33	37	58
Black	23	23	83
Number of respondents	410	594	300

Just under a third of respondents (32%) in the Repeat survey said they had contents insurance, significantly fewer than was found in the Original survey when it stood at 39%. In the Repeat survey, a higher proportion of owner occupiers (70%) had contents insurance but this fell to only 22% of social housing tenants and 4% of those with a private landlord. This is in line with the national picture. Data from the most recent FRS suggests that the proportion of social tenants without insurance has remained stable at around 64%.

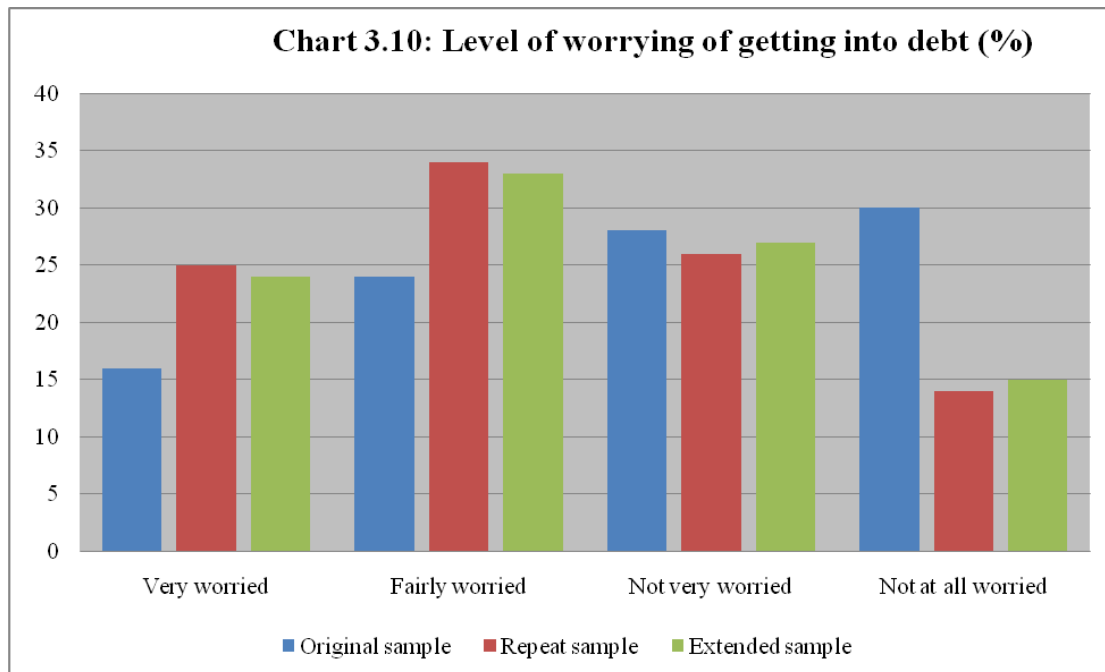
The main reason for not having insurance, which was similar for both the Original and the Repeat samples, was the cost. Relatively few of those without contents insurance said that they had tried to get insurance (9%).

In the Extended sample area, a higher proportion (69%) had contents insurance ranging from 86% of owner occupiers to 24% of those in social housing and 39% of those renting privately. In both the Repeat and the Extended sample, the proportion of respondents having contents insurance rose with age.

3.3.5. Over-indebtedness

The level of over-indebtedness has risen considerably in the UK and Leeds. This is evidenced by a considerable rise in mortgage repossessions since 2004.

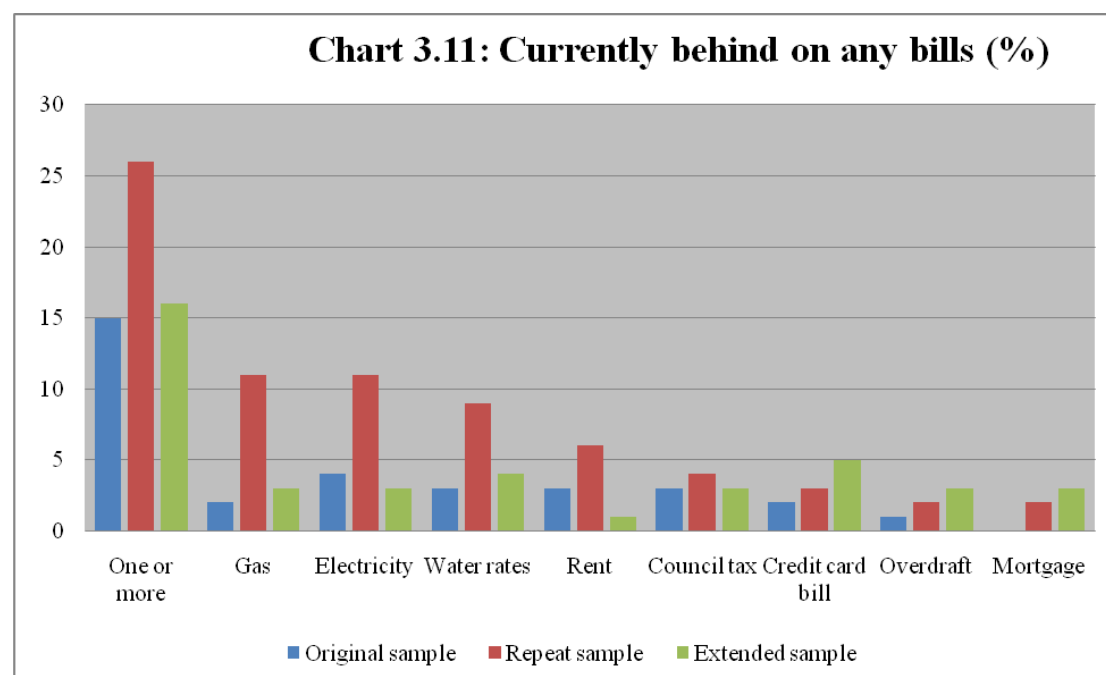
Chart 3.10 compares the level of worry of getting into debt for the Original, Repeat and the Extended surveys.



Overall, 25% of respondents in the Repeat survey were very worried and 34% fairly worried about getting into debt. Households with a mortgage, women, lone parents and households where someone had a mental health problem were the most likely to be worried about getting into debt. A total of 67% of those who had no savings or less than £100 savings were very or fairly worried about getting into debt.

Respondents were significantly more worried about being in debt than they were in the Original survey when 16% were very worried and 24% were fairly worried about being in debt. Although the concern of all groups has increased since 2004, the level of concern about being in debt amongst owner occupiers has increased more than amongst social housing tenants. Respondents in the Extended survey were just as concerned about debts with 24% very worried and 33% fairly worried.

Respondents were asked to say which, if any, bills they were behind with currently (Chart 3.11).



The proportion of respondents that are currently behind with one or more bills has risen significantly since the Original survey. In 2004, 15% were behind with one or more bills compared with 26% in the Repeat survey. In the Extended survey, 16% of respondents were currently behind with one or more payments. In the Extended sample, a higher proportion of respondents had fallen behind with credit payments such as overdrafts or credit card bills, with fewer encountering problems with utility payments.

In all three surveys, people aged 60 or over were the least likely to have fallen behind with bills (14% in the Repeat survey, 5% in the Original survey and 5% in the Extended survey). In both the Original and Repeat survey, social housing tenants were far more likely to have fallen behind with bills than owner-occupiers.

Nationally, 25% of working age adults in workless households were in arrears with one or more household bills, compared to 5% in fully working households (Monitoring Poverty and Social Exclusion, Joseph Rowntree Foundation 2009). In the Repeat survey, 32% of all workless households were in arrears with household bills, compared with 16% in the Extended sample. These figures increase to 37% and 27% if pensioner only households are excluded. These figures cannot be compared exactly as the report cited does not list which bills are included under household bills and this report may have included more items. However, they do indicate that in the most deprived parts of the city, the proportion of households in arrears with household bills is above the national average.

Table 3.5 compares the reasons for falling behind on payments for the Original, Repeat and the Extended samples.

Table 3.5: Reasons for falling behind on payments (%)

	Original sample	Repeat sample	Extended sample
Insufficient income to cover all expenses	50	54	31
Unemployment, redundancy*	21	25	40
Short time working	...	11	6
Physical ill health	12	7	8
Family break up**	12	6	2
Errors in housing benefit	10	4	4
Became pregnant, had a child	4	2	4
Partner left, leaving me with debts	...	2	-
Debts incurred by other HH member	0	2	2
Mental ill health***	...	2	-
Tax credit overpayments	0	1	-
Other	9	5	4
Not sure	6	3	6
Number respondents	139	180	47

Notes: *Short term working was included in this category, **partner left was included in this category, ***mental health not included in the Original survey

In the Repeat survey, the most frequently cited reasons were that their income was insufficient to meet all their expenses (53%). In the Extended sample, the main reason was unemployment or redundancy. Other reasons include short time working; ill health and family break up. This is largely similar to the reasons mentioned by the respondents to the Original survey.

Given the rise in repossessions and number of households struggling with their mortgage payments in the UK and Leeds, numerous questions around mortgages were included in the Repeat and Extended surveys.

Across the two samples, there were 166 respondents who lived in a property with a mortgage. Given the relatively low number of respondents with a mortgage in each of the samples, they are considered together here.

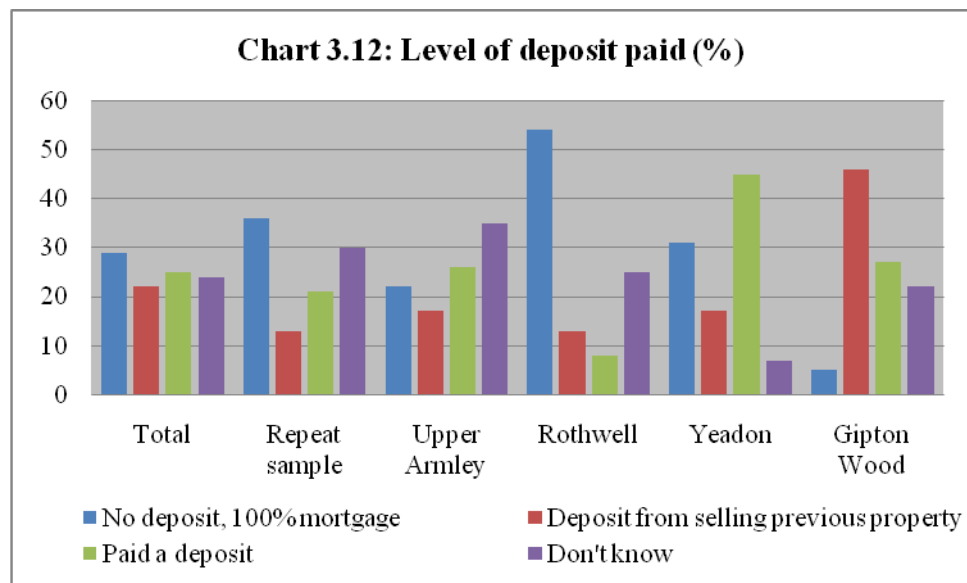
Table 3.6 displays the time respondents have had their mortgage at the time of the interview.

Table 3.6: Length of time respondents had their mortgage (%)

	Total	Repeat sample	Upper Armley	Rothwell	Yeadon	Gipton Wood
1 year	3	8	4	0	0	0
2-3 years	10	17	4	4	10	8
4-5 years	23	25	22	13	28	24
6-10 years	31	32	26	25	34	35
> 10 years	33	19	43	58	28	32
Number respondents	166	53	23	24	29	37

A small number of respondents (3%) had taken out their mortgage within the past year with a further 10% having taken it out in the past two to three years. One in three respondents had their mortgage for more than ten years.

Chart 3.12 displays the level of deposit paid by area.



Just over a quarter of respondents (29%) said they had a 100% mortgage and 22% had a deposit from selling a previous property. A quarter of respondents had paid a deposit but a quarter did not know the level paid. The amount of deposit paid ranged from 1% (2 respondents, 5% of those who paid a deposit) to 80%. The most common deposit was 5%, one in three of those who had paid a deposit.

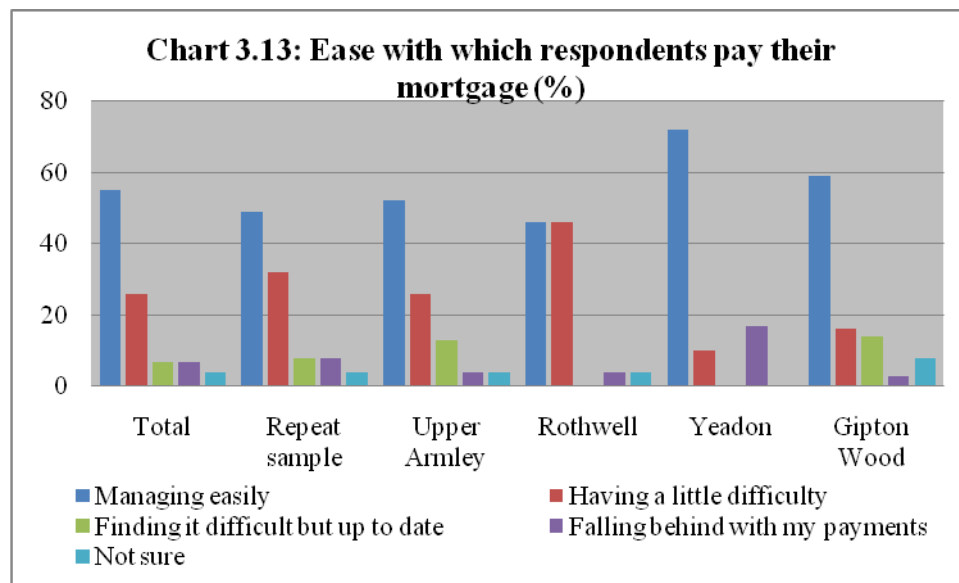
The majority of respondents had their mortgage from a bank (33%) or a building society (54%) with 5% from a finance company. The main reasons for choosing their lender was that it was the best or cheapest deal (45%), that they already banked with that lender (13%) or that it was recommended by a financial adviser or broker. Other reasons included it being a trustworthy lender, being employed by the lender or that it was flexible.

A total of 6% said it was the only one that would lend to them, with one respondent also saying that this was because she was a lone parent and another that it was because they were self employed. One respondent said this was the only lender who would give them a 100% mortgage.

Just over one in three respondents (37%) had a fixed rate mortgage, 30% a standard variable rate and 8% a tracker. One in five respondents did not know what type of mortgage it was. In some cases this was because it was their parents' mortgage. The survey asked what the interest rate was but two in three respondents did not know.

14% of those with a mortgage said they were currently having, or expected to have problems with renegotiating their mortgage in the next couple of years. This figure was higher (23%) among the Repeat survey respondents compared with the Extended sample areas (11%).

Chart 3.13 displays the ease with which the respondents pay their mortgages.



Although the number of respondents who are falling behind with their payments is quite small (12), this would translate to a significant number of households across Leeds as a whole.

When asked what they had done about their situation, the following responses were given:

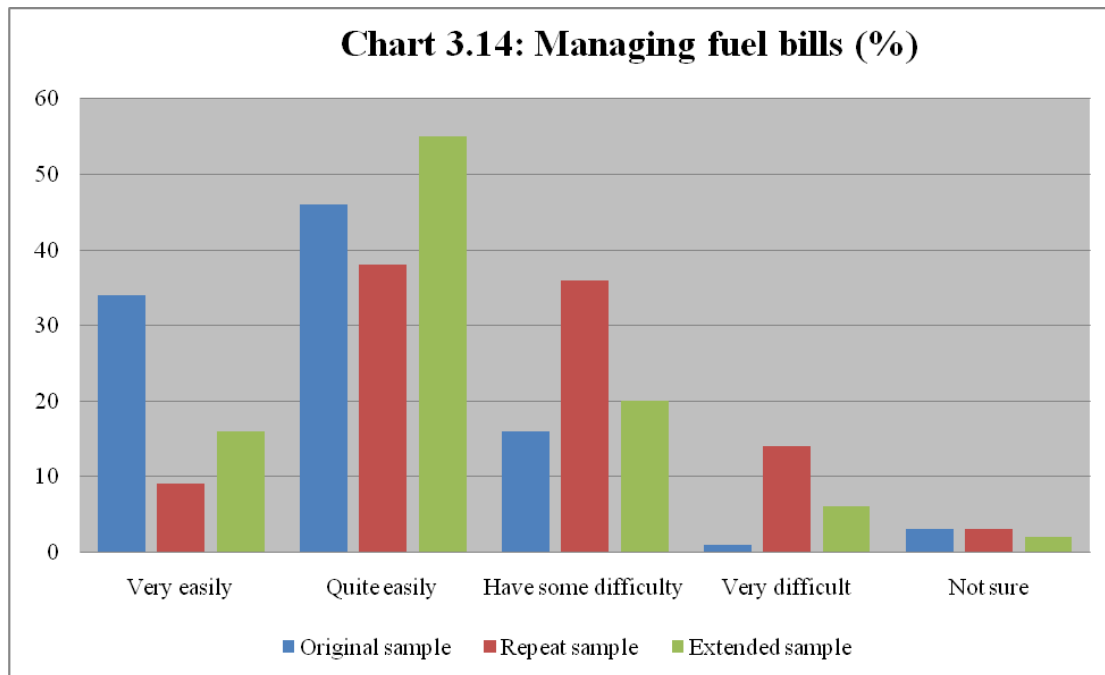
- Been in contact with lender, 3 respondents
- Arranged to pay off so much a month, 2 respondents
- Pay interest only, 2 respondents
- We are trying to pay more each month, 2 respondents
- Nothing yet - we have only missed one payment, 1 respondent
- Nothing, 1 respondent

Five of the 166 respondents with a mortgage said they had something else secured against their home. Three of these respondents were either finding it hard to pay their mortgage or were falling behind. A total of 3% of the Repeat survey respondents and 2% of the Extended survey respondents had used a credit card to pay off a mortgage or other loans.

3.3.6. Fuel poverty

Fuel poverty – the inability to afford sufficient warmth for health and comfort – has risen drastically since the Original survey was conducted. In England there are around 4 million households which can be classified as fuel poor, of which 3.2 million are classed as vulnerable. This constitutes an increase of 70% since 2004.

Chart 3.14 compares how the respondents perceive they are managing their fuel bills.

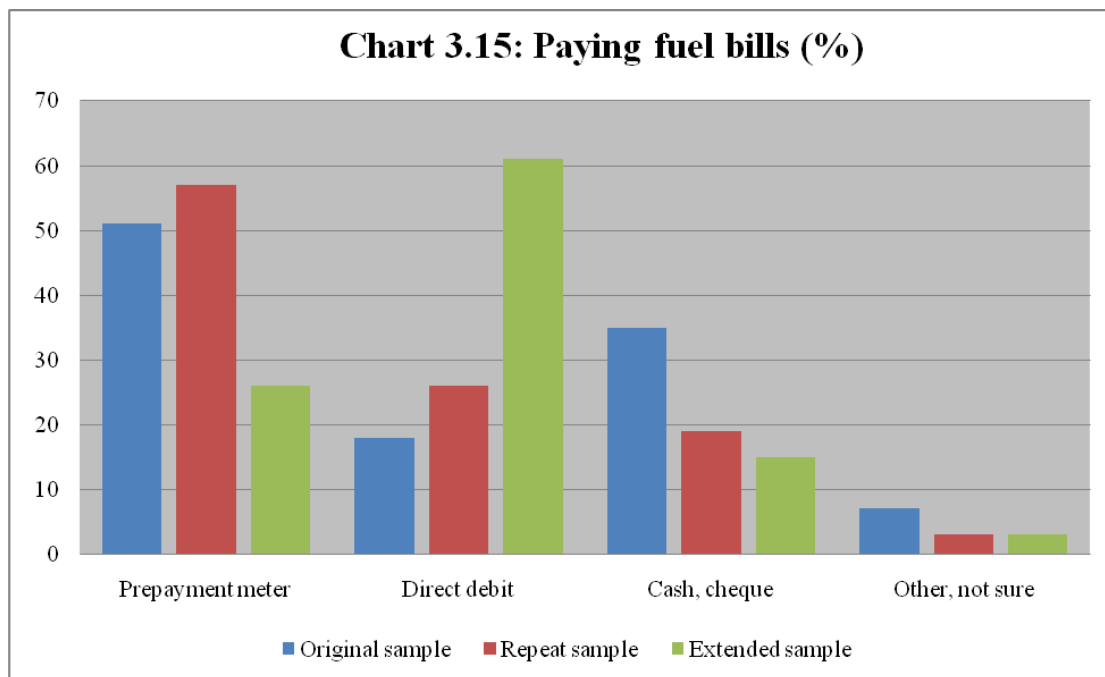


In the Repeat survey, almost half the respondents were having some difficulty with paying their fuel bills. Overall, 9% said they managed very easily and 38% fairly easily. A total of 36% said they had some difficulty and 14% said they found it very difficult. Again there is a significantly higher proportion of respondents finding it difficult than was found in the Original survey (when 17% said they had some difficulty or found it very difficult).

In the Extended sample, a quarter of respondents had some difficulty paying their fuel bills, with 16% saying this was very easy, 55% quite easy but 20% had some difficulty and 6% said it was very difficult.

People who paid their fuel bills by direct debit were less likely than all others to say they were having difficulties with paying their fuel bills. However, this is likely to be because less deprived households tend to pay their bills by this method.

Chart 3.15 compares how the respondents pay their fuel bills.



The proportion of households paying their fuel bills using direct debit has risen significantly since the Original survey. This is a very positive finding as fuel bills tend to be lower when paying by direct debit. However, there has also been a significant increase in the use of prepayment meters, which often attract a higher charge. The increase in the use of both these payment methods appears to happen at the expense of paying fuel using cheques or cash, which fell from 35% in the Original survey to 19% in the Repeat survey.

4. Conclusions and recommendations

4.1. Introduction

This report has analysed and discussed the changes in financial exclusion in Leeds since 2004. It has done so based on a comparison of survey data from two surveys (Original and Repeat) conducted with households in deprived communities in 2004 and 2010 respectively. Any changes have been discussed in the context of the national financial inclusion policy context and national trends in financial exclusion.

4.2. National context

Nationally a plethora of financial inclusion interventions have been introduced since 2004, for example the launch of the Financial Inclusion Fund and the introduction of the Child Trust Fund. Numerous changes have also occurred in terms of the nature and extent of financial exclusion since then.

There has been considerable progress in terms of the access to bank accounts both in England and in Yorkshire and the Humber. In the latter, the percentage of households with current accounts has risen from 85% to 90% from 1999 to 2009. Also the proportion of households without any form of account fell from 7% in both England and the region in 1999 to 3-4% in 2009. This is likely to be the result of the introduction of no-frill bank accounts as well as the move to payment of benefits directly into bank accounts. The access to free ATMs has also improved with the setting of targets for free ATMs in deprived areas.

However, on many other counts, financial exclusion has increased or remained entrenched over the past six years. The propensity to save has remained largely stable and has even fallen slightly, reflecting the complex and structural set of factors affecting saving patterns.

The ownership of home contents insurance has remained low for tenants and low-income households despite falls in the cost of such insurance in real terms. There has been a surge in over-indebtedness as evidenced by the rise in mortgage repossessions since 2004. Fuel poverty has increased sharply especially since 2006. Today over 4 million households in England are classed as fuel poor, of which 3.2 million are classed as vulnerable. This is up from 1.2 million households in 2004.

Finally, the economic and financial crisis is likely to have reduced the access to financial products linked to credit-scoring through unemployment and tightening of lending policies, though there are little statistics to prove this.

4.3. Changes in financial exclusion in Leeds

To see how far these national changes are mirrored locally, sample data from the Original and Repeat surveys were compared. In 2004, 410 households living in deprived neighbourhoods were surveyed (referred to as the Original survey). Six years later, in 2010, the same survey was conducted with 602 households in the same neighbourhoods (referred to as the Repeat survey). In addition, a survey was conducted with 300 in four areas with average levels of deprivation (referred to as the Extended survey). The latter sample had a higher proportion of working households and homeowners, and was conducted to assess the effect of the recent recession.

The survey results suggest that the households surveyed in 2010 had indeed been affected by the recession. One in four households across both samples had someone who had been made redundant, had their hours reduced or had their pay cut during the previous twelve months. There was also a significantly greater proportion of unemployed in the Repeat and Extended samples compared with the Original sample. This is likely to affect the extent and nature of financial exclusion of the Repeat sample, as households on low fixed incomes with weak or no links to the labour market are less likely to hold and use most mainstream financial products.

A comparison of the survey data from 2004 and 2010 suggests that on many measures the nature and extent of financial exclusion in Leeds has largely followed that of the UK. The access to basic banking and transaction services has increased. There has been a significant increase in ownership of bank accounts as well as a significant fall in the percentage that have been denied a bank account since the Original survey. There is also evidence suggesting an increased usage of direct debits.

The Repeat survey saw a significant drop in the propensity to save, the frequency of saving and level of savings. Since 2004 the proportion of households without savings has nearly doubled. There is also a significant fall in the likelihood of having home contents insurance.

There was a fall in both mainstream and sub-prime borrowing. There has been a significant fall in the percentage of respondents using home credit and catalogue credit. There was also a significant rise in households having been rejected in their application for credit. This may suggest a tightening of lending policy and a worsening of people's credit scoring. In terms of affordable credit, there was an increase in awareness of the credit union though no significant change in credit union membership since the Original survey. However, the number of Leeds Credit Union adult members has increased from just over 10,000 in 2004 to over 21,500 in 2010. In the same period the total membership (including junior accounts and members under the age of 18) rose from 12,000 to in excess of 26,000.

Similar to the national trends, over-indebtedness and fuel poverty in Leeds also appear to have risen since 2004. There has been a significant rise in the level of worry of getting into debt. In the Original survey, 40% were very or fairly worried compared with 60% in the Repeat survey. There is also a significant increase in the percentage of households who are behind with one or more bills, though the list of possible bills was more extensive in 2010 than in 2004. Finally, a significantly higher proportion of survey respondents were struggling to pay their fuel bills in the Original survey than in the Repeat. However, a higher proportion of respondents are now paying their fuel bills using direct debits, which tends to lead to lower fuel bills relative to prepayment meter and cash payments.

4.4. Groups and areas most affected by financial exclusion

A comparison of the Original and Repeat survey respondents suggest that the same groups are experiencing financial exclusion. In both the Original and Repeat survey, social housing tenants were far more likely to have fallen behind with bills than owner-occupiers. Owner occupiers were more likely to have savings and home contents insurance than other tenures. Overwhelmingly, workless and lone parent households were more likely to have no savings at all or less than £100. The groups least likely to have a bank account were men under 60 living alone and pensioner only households.

However, an examination of the respondents in the Extended sample suggests that financial exclusion also affects less deprived areas and groups other than lone parents and households on means-tested benefits. The respondents of the Extended sample, generally more affluent than the Original and Repeat survey samples, were only slightly more likely to save using a bank or building society account than the respondents of the Original survey. They were significantly less likely to save, in any form, compared with the Original survey. Also the respondents of the Extended survey were less likely to have mainstream borrowing compared with the Original survey respondents.

4.5. Implications for research and policy

The findings of this report paint a somewhat bleak picture of financial exclusion in Leeds. With the important exception of access to and use of banking and transaction services, financial exclusion has grown since the last survey. This is not necessarily a reflection on the significant financial inclusion interventions implemented in the UK and in Leeds. On the contrary, a recent study of the economic and regeneration impact of financial inclusion activities in Leeds estimated that these interventions had a cumulative impact on the regional economy of £28 million (Dayson et al, 2009). Ultimately, as with any, the impact of financial inclusion interventions can only be ascertained through a designated study examining the effects on beneficiaries of a given number of interventions and also the costs of these interventions.

However, the findings of this study provide important lessons for financial inclusion practitioners. First, the influence of national factors on financial exclusion locally is likely to be considerable. In virtually all aspects of financial exclusion the survey data suggest that Leeds mirrored the country. Although Leeds has proven innovative and effective in its approach to financial exclusion, the influence of national policies and regulatory regime is evident in numerous aspects. The enhanced access to bank accounts in Leeds is at least in part due to the national government's push on paying benefits into bank accounts and pushing for the introduction of no-frills bank accounts. This would suggest that local authorities and other stakeholders in financial inclusion also need to be attuned to the national picture and lobby the national government for the implementation of more effective financial inclusion policies.

Second, the trends in financial exclusion are closely linked to trends in employment and other socioeconomic factors. For example, access to mainstream loans is often dependant on the respondent being in employment. This suggests that combating financial exclusion is not likely to be effective if done in isolation of wider social inclusion interventions and labour market interventions. Financial inclusion interventions are important to avoid people slipping back into the cash economy as they are leaving the labour market.

Finally, financial exclusion is not only affecting traditionally financially excluded groups and areas, but also less deprived areas and households. The respondents residing in less deprived areas were in fact less likely to save and have mainstream borrowing than respondents in the deprived areas surveyed in 2004. They were also slightly more likely to have had an application for credit rejected. This would suggest that financial inclusion interventions should not only target the typically financially excluded, but also less deprived areas and households.

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A. Survey methodology

Survey methodology and sampling

A total of 902 people were interviewed face to face in their homes during February 2010. This included 602 respondents in the original eleven areas which included parts of the wards of Burmantofts and Richmond Hill, City and Hunslet, Gipton and Harehills, Hyde Park and Woodhouse, and Killingbeck and Seacroft, some of the most deprived parts of the City. A further 300 people were interviewed in four areas with median indices of deprivation. This latter sample attempted to concentrate on owner occupiers.

Given the relatively small sample size and the fact that this survey concentrated on looking at the experiences of people at risk of financial exclusion, the deprived sample areas were selected from sub-areas within wards with the highest levels of benefit claimants. These were the same areas sampled in the Original survey in 2004. Current data on the number of benefit claimants suggests these areas have not changed greatly over the six year period. The final areas were selected so that a range of types of areas were covered. This included 'garden city' type housing estates, inner city council areas and inner city areas with terraced housing. Eleven areas were selected as follows:

- Holbeck: area south of City centre and north of M621 motorway. This area is bounded by Ninevah Rd in the east and Domestic Road in the north;
- Little London: area bounded by Clay Pit Lane in the south, Meanwood Road in the north east, Leicester Place/Blenheim Grove in the south west and Craven Place in the north;
- Lincoln Green: area around Lincoln Green Road and area to east of Becketts Street but south of Shakespeare Street;
- Harehills: area bounded by Harehills Lane in the east, Harehills Avenue in the north, Spencer Place in the west and Bayswater Road/Ashley Road in the south;
- Gipton: area around St Wilfred's Grove;
- South Farms Road: area around South Farms Road bounded in north by Caldecote Drive and in south by Gipton Approach;
- Seacroft: area to south west of Parklands
- Halton Moor: part of the state south of Neville Road
- Richmond Hill: area just to the west of East End Park, south of York Road, north of railway line and bounded in the west by Pontefract Lane;
- Beeston Hill: bounded in east by Dewsbury Road, in north by Hunslet Hall Road, to west by Tempest Road and to south by Trentham Street;
- In addition, a small number of interviews were conducted in Belle Isle: area around Belle Isle Circus.

Four new areas, middle level super output areas, were included in this study as follows:

- Upper Armley, all the Middle level SOA. This area is bounded by Stanningley Road to the north, a railway line to the south, Wortley Road and Armley Ridge to the east and the area of New Scarborough to the west;
- Yeadon (Henshaws, Southway and Westfields) the area to the north and to the west of Yeadon Town Centre concentrating on 'right to buy' former council properties;

- Oakwood and Gipton Wood: the area bounded by Easterly Road, Roundhay Road, Oakwood Lane, Oakwood Grange Lane and North Grove Rise, which comprises lower level SOA's 037C,D and E;
- Rothwell area and Middleton Heritage Village and Robin Hood: Initially the intention was to conduct interviews in the Middleton Heritage Village, Robin Hood South, Lofthouse and Thorpe MSOA, concentrating on the new build owner occupier housing. It proved however very difficult to find lower income owner occupiers other than in a few areas of 'starter home' type flats which only have door entry phones where interviews are extremely difficult to achieve. Instead interviews were conducted in Rothwell which has a similar IMD.

The sample was designed to be representative of the population within these areas using data from National Statistics. Interviewers were given quotas based on gender, age, ethnic origin and employment status.

Statistical significance of results

The sampling tolerance depends on both the number of interviews and on the proportion of people giving a particular response.

Table A.1: Approximate sampling tolerance: percentage of respondents giving a response at or near these levels

	10% or 90%	30% or 70%	50%
All interviews original areas (602)	+/- 2.5%	+/- 4%	+/-4%
Individual new areas 75 responses	+/- 7.0%	+/- 10%	+/- 12%
All new areas 300 responses	+/- 3.5%	+/- 5%	+/- 6%
Comparing results from 2004 to 2009*			
410 and 602 interviews	4%	6%	6%

Notes: * Percentage results need to differ by to be statistically different

For the sample in the original areas (Sample A), this means that if 30% of the sample overall gave a particular response, the true answer lies between 26% and 34%, although it is more likely to be near 30%. When comparing the results for the Original and Repeat surveys, results will need to differ by about 6% to be considered statistically different.

Weighting results

The sample for the Repeat survey was based on quotas for age, gender, ethnic origin and employment status for the two surveys. The Repeat survey is broadly similar to the Original survey apart from tenure, which is a key factor in the level of financial exclusion. The Repeat survey interviewed a slightly lower proportion of owner occupiers than were contacted in 2004. The Repeat figures slightly under-represent the proportion of owner occupiers when compared to 2001 Census. To ensure the results can be compared the 2010 data for the Repeat survey is weighted to the tenure profile of the Original survey. The weighted results, presented here, do not differ by more than one percentage point from the unweighted results.

B. Overview of sample

Table B.1 compares the samples for the Original and Repeat surveys by area.

Table B.1: Main sample by area

	Original sample	Repeat sample
Beeston Hill	60	85
Burmantofts	40	60
Gipton	25	36
Halton Moor	35	52
Harehills	65	96
Holbeck	50	75
Little London	35	50
Belle Isle	10	15
Richmond Hill	30	44
Seacroft	30	45
South Farm	30	44
Total sample	410	602

Given the relatively small sample size and the fact that this survey concentrated on looking at the experiences of people at risk of financial exclusion, the deprived sample areas were selected from sub-areas within these wards with the highest levels of benefit claimants.

In addition to conducting a survey of these areas, the Extended survey also covered four areas with average levels of deprivation, in part to assess the effect of the recent recession. Table B.2 displays this sample by area.

Table B.2: Extended sample by area

Upper Armley	75
Rothwell, Robin Hood	75
Yeadon	75
Gipton Wood	75
Number respondents	300

A further 300 people were interviewed in four areas with median indices of deprivation.

Table B.3 displays some basic demographic data for the sample.

Table B.3: Sample demographics (%)

	Original sample	Repeat sample	Extended sample
Female	52	53	52
Age group			
18-29 years	32	31	26
30-44 years	32	35	31
45-59 years	18	18	23
60 years <	18	16	21
With children			
None	54	53	53
> 5 years	22	25	17
5-10 years	22	24	21
11-16 years	22	17	23
17-18 years	4	5	8
Disability			
Physical self*	22	20	13
Physical other in HH*	15	10	10
Mental health self	...	5	3
Mental health other in HH	...	2	2
Car ownership	32	35	70
Number respondents	410	594	300

Notes: HH = Household, * The Original survey does not distinguish between mental and physical disability

The data in the table suggests that the Original and the Repeat samples are similar and broadly comparable in terms of demographics. There is a similar proportion of women, age groups and in terms of households with children.

The Extended sample differs from the Repeat sample in that it has a larger proportion of car owners, reflecting that it is a more affluent group, and it also has a smaller proportion of disabled people.

Table B.4 shows the employment status for the sample.

Table B.4: Employment status (%)

	Original sample	Repeat sample	Extended sample
No-one in HH working	52	55	38
Full-time employment	21	18	30
Part-time employment	11	11	12
Self-employed	1	3	4
Full-time education	3	2	2
Unemployed	12	22	18
Home maker	22	20	10
Retired	17	14	18
Long-term ill	12	10	7
Other	1	-	1
Number respondents	410	594	300

Notes: HH = Household

The Original and Repeat samples are largely comparable in terms of employment status. A similar proportion of respondents were in full or part-time employment or

homemakers. Also, the percentage of respondents from households with no-one in employment was similar for the Original and Repeat surveys, though slightly higher in the latter. It is noteworthy that a significantly larger proportion of the respondents of the Repeat survey were unemployed compared with the Original survey. This reflects the rising unemployment in Leeds and nationally over the past few years. It must also be noted that, combined, a significantly larger proportion of respondents of the Original survey were homemakers, retired or long-term ill relative to the Repeat survey which may help explain the higher proportion of unemployed in the Repeat survey.

Excluding pensioner households, 48% of households in the Repeat survey were workless. This is far higher than the national average where 16% of all households are workless as are 42% of lone parents and 6% of couples with dependent children (Labour Force Survey, 2008).

The proportion of workless households in the Extended sample was lower at 38%, although the proportion of workless households in social housing was similar. Excluding pensioner households, 20% of households were workless, only marginally above the national average (Labour Force Survey for 2008).

Table B.5 shows housing tenure by sample.

Table B.5: Housing tenure (%)

	Original sample	Repeat sample	Extended sample
Housing tenure			
Council tenant	52	53	9
HA tenant	4	4	3
Private landlord tenant	17	18	20
Own with mortgage	18	18	38
Own outright	8	8	30
Time in area			
> 1 year	12	7	9
1-2 years	10	11	7
2-5 years	12	15	11
5-10 years	11	16	19
11-20 years	18	18	15
20 years <	37	32	40
N	410	594	300

Notes: HA = Housing Association

In terms of housing tenure, the Original and Repeat samples are nearly identical. In both samples nearly 60% are social housing tenants, 75% are tenants and around 25% are homeowners. There are a significantly higher proportion of respondents that have lived in the area for less than one year in the Original survey relative to the Repeat survey. Otherwise there are no significant differences between the samples.

Conversely, the vast majority of the respondents of the Extended sample are, by design, homeowners (nearly 70%). Only 12% are social housing tenants, while around 20% are private tenants.

Table B.6 displays the ethnic origin of the sample.

Table B.6: Ethnic origin (%)

	Original sample	Repeat sample	Extended sample
White British	75	68	82
Irish	-	1	0
Other White	-	2	2
Mixed White & Black Caribbean	1	1	0
Mixed White & Black African	0	-	0
Mixed White & Asian	-	-	1
Mixed Other	0	-	-
Indian	1	1	2
Pakistani	8	11	7
Bangladeshi	4	5	1
Other Asian	1	1	0
Black African	4	5	1
Caribbean	1	2	3
Any other Black	1	2	-
Chinese	-	-	0
Other	3	1	1
Number respondents	410	594	300

Notes: - fewer than 0.5% gave that response

There are few significant differences between the samples in terms of ethnicity. The proportion of White British is significantly lower in the Repeat survey. However, the proportion of White respondents is not significantly different. There is a higher, though not significantly so, proportion of respondents of Pakistani origin in the Repeat survey. The Extended sample has a larger proportion of respondents classifying themselves as White.

Table B.7 shows the proportion of clients and non-clients receiving benefits, which is a key indicator of poverty.

Table B.7: Benefits (%)*

	Original sample	Repeat sample	Extended sample
Benefits	74	78	58
Eligible for free school meal	19	15	11
Housing benefits	45	50	20
Council tax benefit	46	51	27
Job seeker allowance	8	20	11
Income support	31	18	12
Incapacity/disability benefit	18	16	13
Child tax credit	...	29	27
Pensioner credit	...	10	6
Working tax credit	11	15	11
Disability tax credit	1
Other benefit	2	1	1
Don't know / refused	7	1	0
Number respondents	410	592	300

The receipt of benefits is similar to that found in the Original survey but direct comparisons cannot be made as the benefit regime has changed since 2004 with the introduction of Child Tax Credit and changes to Working Tax Credit.

Overall there is no statistically significant difference between the Original and Repeat samples in terms of receiving benefits. There are significant differences in terms of receiving some specific benefits. A significantly higher proportion of Repeat survey respondents are on JSA, which largely corresponds to the percentage of respondents who state that they are unemployed. A significantly larger percentage of the Original sample were in receipt of income support relative to the Repeat sample. In the Repeat survey, 46% of the respondents with children aged between 5 and 16 years were eligible for free school meals, compared with 54% of respondents in the Original survey. In the Extended sample, the same figure was 36%. The respondents of the Original survey were also significantly more likely to not disclose the benefits they were receiving.

Table B.8 shows the income group of the respondents.

Table B.8: Weekly income (%)*

	Original sample	Repeat sample	Extended sample
> £60	8	7	2
£60-119	27	27	10
£120-199	33	30	15
£200-299	14	18	20
£300-479	13	12	20
£480-674	5	4	15
£675 <*		2	18
N	292	343	186

* In the Original survey the highest income group was £480 <

The incomes for both the Original and Repeat survey are far below the national average. The 2007/2008 Family Resources Survey (FRS) indicates that nationally 22% of households have a weekly income of less than £200 per week and 44% have a weekly income of more than £500 per week. In comparison, of those who gave a figure in the Repeat survey, only 5% of respondents said they had a household income greater than £480 per week (equivalent to £25,000). Only 17% had an income above £300 per week (£15,000 per year). A total of 65% of those giving a figure had an income of below £200 per week and a third (34%) had an income of below £120 per week.

The FRS (then the Family Expenditure Survey) for 1999/2000 gives an average gross income of £482 per week and an average disposable income of £392 per week. It is not possible to calculate an average income for this survey as respondents were asked to put their income into ranges but it is clear from Table B.8 that almost all respondents had a weekly income below the national average.

Income levels in the Extended sample were higher with 18% of those giving a figure having a household income of more than £675 per week and 27% an income below £200 per week.