

# Debt on Teesside: Pathways to Financial Inclusion

## Final report

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## Notes on funder, contributing organisations and people

**Northern Rock Foundation** is an independent charity, which aims to tackle disadvantage and improve quality of life in the North East and Cumbria. The Foundation gives grants to organisations that help people who are vulnerable, disadvantaged, homeless, living in poverty or are victims of crime or discrimination. It also supports training, research and demonstration work and seeks to share learning from the activities it funds ([www.nr-foundation.org.uk](http://www.nr-foundation.org.uk)).

**Centre for Social Justice and Community Action, Durham University** is an interdisciplinary research centre that promotes and supports participatory action research (PAR). It was set up in 2009, with a steering group of academics and community partners, and engages in community-university partnership research projects, offers training in PAR and related approaches, runs workshops, seminars and conferences and has recently developed ethical guidance and resources for community-based participatory research ([www.durham.ac.uk/beacon/socialjustice](http://www.durham.ac.uk/beacon/socialjustice)).

**Church Action on Poverty (CAP)** is a national educational charity set up in response to growing UK poverty and inequality in the 1980s. Throughout its 30-year history, the main aim of Church Action on Poverty has been to get the voice of people in poverty directly to decision-makers and the many tools and campaigns the organisation has used to achieve this include poverty hearings and campaigns on issues such as fair credit, taxation and inequality ([www.church-poverty.org.uk](http://www.church-poverty.org.uk)).

**Thrive** is an award-winning charity based in Teesside, which aims close the gap between the rich and the poor by building the capacity of financially and socially excluded communities. Thrive provides opportunities for people on the margins of society to have a voice and effect real transformative change ([www.church-poverty.org.uk/what-we-do/whatwedo/thriveteesside](http://www.church-poverty.org.uk/what-we-do/whatwedo/thriveteesside)).

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# Executive Summary

## 1. Overview

*Debt on Teesside* was a two-year action research project, funded by the Northern Rock Foundation during 2011-13. The project was a partnership between Durham University's Centre for Social Justice and Community Action, Church Action on Poverty (CAP) and Thrive (a Teesside-based community organisation).

The project worked with 24 low income households experiencing unmanageable debt in the Teesside area of North East England. The aims of the project were to:

- explore the dynamics of household debt (through household-level research interviews and workshops)
- examine the potential for supporting positive change away from high cost credit towards more financially sustainable alternatives (through a community-based financial mentoring scheme)
- initiate community action and campaigns on issues related to financial exclusion (through a community organising approach).

## 2. Background: Financial exclusion

As the effects of the recession in the UK worsen – with rising food and energy costs, coupled with reductions in welfare benefits – the extent and severity of financial exclusion is increasing, along with high ratios of (often unmanageable) debt. This project grew out of earlier work by CAP, Thrive and Durham University, which had highlighted household indebtedness, linked to the use of high cost credit sources, as a key issue for low income households in the Teesside area. Such households can be described as experiencing 'financial exclusion', as they lack key financial products such as bank accounts, insurance, pensions and have little or no savings.

## 3. Methods

- Twenty four households were recruited in Stockton-on-Tees and Middlesbrough, from which detailed information on financial, health and social circumstances was gained through in-depth interviews and questionnaires. The criteria for involvement were that households should have a low income, were experiencing debt problems and were interested in participating in the mentoring scheme. Recruitment was mainly via door-knocking in targeted neighbourhoods.
- Sixteen mentors were trained, some of whom were community-based volunteers and others were employees seconded from local agencies. Mentors made regular visits to allocated households, supporting them with managing their money and recording progress.
- Two workshops were held to bring households together, two public assemblies highlighted issues of irresponsible lending, and community-based and national campaigns were organised linked to high cost credit.

## 4. The households and their finances

The households joining the project were financially vulnerable and generally were not in touch with debt advice agencies. Two households had a member in paid work, while all other households received

their income from benefits or a mixture of benefits and tax credits. Just over half the households were lone parent families; nine had members experiencing mental health problems. Key financial characteristics of the households were:

- a) **Bank accounts** - Seven participants had no bank account, whilst 13 had basic bank accounts.
- b) **Savings** – 23 households reported having no savings, while one reported £4 savings.
- c) **Total debt** - Amounts of total household debt estimated by participants at the initial interview ranged from £340 to more than £10,000. Two did not know the amount of household debt.
- d) **Rent and tax arrears** - A third of the participating households had rent arrears and three households had council tax arrears - priority debts that can cause eviction.
- e) **Credit sources** - interest free loans from the government's Social Fund were used by 17 out of 24 households. Other popular sources were all from high cost credit providers, with APRs that can range from 437% to 3,113%. These included: doorstep loans (16 households); rent-to-own companies (10); and catalogues (10). Awareness and use of third sector credit sources was low. Only two households had a loan from a community-based low cost alternative provider (Five Lamps).

## 5. Factors shaping and constraining financial choices: research findings

- a) **Need for credit** - Having a low income and no savings means that credit is needed for coping with crises and major events, and in many cases for basic on-going living expenses.
- b) **Unavailability of low cost credit** - Lack of savings and a poor credit record means many sources of third sector credit (e.g. credit unions) and mainstream credit (e.g. banks) are not available to poor households.
- c) **Ready availability of high cost credit** - High cost credit is readily available, with few checks on affordability, and is frequently offered (e.g. by doorstep lenders) without being sought by households.
- d) **Normalisation of high cost credit** - Use of high cost credit is accepted and normalised in certain communities - used by families, friends and neighbours (e.g. catalogues, rent-to-own companies, doorstep lenders).
- e) **Short term approach to money management** - For many households, the main consideration in taking out a loan is whether the weekly repayment looks manageable, rather than the total cost of the loan over the repayment period.
- f) **Influence of consumer society** - Immersion in a consumer society means material goods are highly valued and purchasing of relatively high cost items (smart phones, TVs, computer games) is one way people can exert a choice to socially include themselves and their families. Purchase of such goods for children in order to counter peer pressure or bullying was commonly mentioned by the households in the project.

## 6. Mentoring and campaigning: evaluation of the action programme

- a) **Mentoring**
  - During the course of the project, 64 mentoring sessions took place with 16 households. Some households received one session, whilst others received up to eight. By the end of the mentoring scheme (March 2013), six households were still receiving mentoring.
  - Positive benefits for households included: provision of information about options or services of which participants were unaware; direct help with budgeting and making appointments at

advice agencies; reduced levels of debt; improved psychological well-being, less anxiety and more confidence; increased financial awareness and 'thinking things through'.

- Arranging and delivering the mentoring sessions was challenging and time-consuming. Many households had complex problems, of which unmanageable debt was just one.
- Evaluation of the scheme suggests that individual mentoring is valuable, but requires a good structure of training and support for the mentors. Locating an individual mentoring scheme within a group- and community-based approach to developing financial capability would be more sustainable over the long term, and would also lead more easily into involving households in local collective actions and campaigns.

b) ***Community-based actions and campaigns***

- Several local actions were initiated by the project in relation to doorstep lending (involving distribution of window stickers: 'No to uninvited traders') and incentivised saving (households saving £50 with the credit union, which would then be matched).
- The work of the project fed into a successful national action by Thrive and CAP with other partners and the Centre for Responsible Credit in 2012 to agree specific reforms to the rent-to-own sector of the high cost credit market. Work is now in progress on affordability of high cost credit and demands for data sharing between companies.
- A small number of households from the project have been involved in these actions to date. This reflects both the all-consuming nature of the struggle to survive in many households, as well as a lack of capacity within Thrive (with only a half-time equivalent post attached to this project) to develop and support volunteers, in addition to running the mentoring scheme.

## 7. Summary of key findings and actions

- a) ***High cost credit is readily available*** and is regarded as 'normal' in many low income families and neighbourhoods.
- b) ***There was a low awareness of interest rates*** in participating households. People focused on the affordability of weekly repayments rather than the total cost of credit.
- c) ***One-to-one financial mentoring can be effective*** for some households in raising confidence in money management and enabling changed borrowing practices, but it is time-consuming. Group- and community-based schemes may be more sustainable.
- d) ***Community-based campaigns can be successfully scaled up to national level***, which include people living in poverty giving voice to their experiences. A Thrive-led campaign to reform lending practices in the rent-to-own sector of the high cost credit market was successful in achieving changes in policies and practices of three major private sector companies.

## 8. Recommendations

- a) ***Development of neighbourhood, group-based financial capability and mentoring programmes*** – one-to-one mentoring can be effective, but is time-consuming and does not necessarily connect households with each other. In addition to one-to-one mentoring, support should be given to groups of people in their local neighbourhoods, including professionally-delivered financial capability courses, leading to trained participants offering peer support locally.

- b) **Redeployment of staff to community-based work** – advice agencies and housing providers might consider redeploying a small proportion of existing staff from casework to community-based debt advice and support projects.
- c) **Coordinated action by partner agencies on Teesside** – many agencies in Middlesbrough and Stockton are already meeting together to work on financial inclusion, particularly in the context of welfare reform. The research findings should be presented to the Financial Inclusion Partnerships to discuss further coordinated action.
- d) **Research to monitor high cost credit use following welfare reforms** – low income households have relied heavily on Social Fund loans. Follow-on research is recommended to monitor the effects of welfare reform, particularly the changes to the Social Fund, on the use of high cost credit in poor households.
- e) **Development of infrastructure for Thrive to support volunteers and community activists** – the resources and administrative infrastructure needed to support community-based volunteers is significant. It is recommended that Thrive seeks funding for a project to develop and support community-based volunteers and activists over a three-year period, building an infrastructure of training, support, monitoring and evaluation.
- f) **Development of further low cost credit options for poor households** – further work is needed with credit unions and other alternative credit providers to encourage and support greater accessibility and take-up of low cost credit options for poor households.
- g) **Greater state regulation of high cost credit providers** – current regulations about pricing and advertising in the sub-prime credit market need to be enforced; new regulations, including requirements for data-sharing to ensure affordability of loans, should be introduced and a legal cap on the total cost of credit.

# 1. Introduction

This report is based on a two-year action research project, *Debt on Teesside: Pathways to Financial Inclusion*. The project recruited 24 households experiencing poverty and high levels of debt in the Teesside area of North East England during 2011-13.

## **Distinctive features of the *Debt on Teesside* project**

As the effects of the recession in the UK worsen – with rising food and energy costs, coupled with reductions in welfare benefits – the extent and severity of financial exclusion is increasing, along with high ratios of (often unmanageable) debt. A number of studies have documented the nature of credit and debt in low income households and attitudes towards debt (for example, Dearden et al, 2010; Jones, 2010; Mathers and Sharma, 2011; Policis, 2008). However, the *Debt on Teesside* project has several distinctive features:

- It was an *action research project* working with a small number of households over time, collecting data on household finances, offering financial mentoring and mounting community campaigns on emerging issues.
- It was also a *community-university research partnership* between Thrive (a Teesside-based community organisation), Church Action on Poverty and Durham University's Centre for Social Justice and Community Action. The project built on previous collaborative work between Thrive and Durham University, which involved staff and students of the University working alongside community members in several small action research projects (see Beacon North East, 2011; Friends Provident, 2010).
- Therefore the lessons from the *Debt on Teesside* project include not only insights into the dynamics of household debt, but also the challenges and benefits of community-based financial mentoring, the effectiveness of community campaigns and the ethical and practical issues involved in community-university partnership working.

## **Overview of the report**

This report provides a detailed account of the work of the project, its findings and a series of recommendations.

Chapter 2 offers a brief background discussion of the nature of financial exclusion, drawing on recent literature and research. The methods and action research approach are outlined in Chapter 3, which gives details of household and mentor recruitment and how the mentoring and campaigning work operated alongside household-level data collection. Chapter 4 profiles the characteristics of the 24 households in the study, including their levels of debt and attitudes towards money management, while Chapter 5 looks in detail at the sources of credit used. Chapter 6 draws out key themes relating to households' approaches to money management and financial choices, including the struggle many households face to 'get by' and the pressures from living in a consumer society. Chapter 7 comprises an evaluation of the mentoring scheme, with perspectives from mentees and mentors on achievements and challenges. Chapter 8 gives an account of the community actions and campaigns linked with the project, while Chapter 9 offers some reflections on challenges ahead in terms of welfare reform, and

the need to promote low cost credit and regulate high cost credit. Chapter 10 concludes by reviewing the extent to which the original aims and objectives of the project have been met and offers a series of recommendations for policy and practice.

For readers who want a brief overview of the project, the Executive Summary, also produced separately as a research briefing (Banks et al., 2013) will be useful.

For those particularly interested in the action element of the project, Chapters 7 and 8 focus on the mentoring scheme and community action and campaigns. A separate community mentoring toolkit has also been produced (Centre for Social Justice and Community Action, 2013).

## 2. Background: Financial exclusion

### Introduction

This chapter discusses the nature of financial exclusion and how this affects the lives, attitudes and behaviour of people living in poverty. It summarises some of the key points that emerged from a brief review of recent research and literature relevant to financial exclusion, particularly the use of high cost credit by poor households.

### Financial exclusion

Financial exclusion can be defined as 'a state where individuals cannot access the financial products and services that they need' (Transact, 2010:2). Financial exclusion may be caused by a scarcity of banking facilities in a particular geographical area or, more subtly, by marketing or pricing exclusion, through which 'undesirable' potential customers are deterred. Individuals may also be financially excluded because of a poor credit history or may self-exclude because the mainstream financial market does not suit their needs. Kempson and Whyley (1999) found that individuals self-exclude from mainstream banking because of the fear of being refused a bank account or fear of losing control over their finances. Self-exclusion may also be the result of unfamiliarity with banks, low levels of confidence in banking services and lack of confidence in using banks (Gloukoviezoff, 2011:35).

Individuals experiencing financial exclusion lack key financial products such as bank accounts, insurance, pensions and have little or no savings. Poverty is a key aspect of financial exclusion, with particular groups such as lone parents, the unemployed and those in social housing most likely to be financially excluded (Devlin, 2005; Ellison et al, 2011; Patel et al, 2012). Having no access to mainstream banking also means no access to mainstream credit services. Analysis by the European Commission (2008) found that 30 per cent of British adults had no credit facilities, a similar number to that in Kempson's (2002) research (reported in Consumer Focus, 2011: 6). A recent consumer survey (Personal Finance Research Centre, 2013) showed that potentially lower cost mainstream credit was not a feasible option for the majority of customers who currently use short-term, high-cost, credit<sup>1</sup>.

### The poverty premium

Although unable to access mainstream credit, many people on low incomes require credit to 'get by' and therefore turn to alternative lenders, generally high-cost credit sources, as well as borrowing from family and using Social Fund loans. In addition, low income households are often disadvantaged to begin with, paying the highest charges for basic utilities such as gas and electricity (the 'poverty premium'). Without access to banking, cheaper direct debit payments cannot be made and paying for fuel on pre-pay meters is significantly more expensive. Lower income households also spend more of their income on basic requirements, such as food and heating (Levell and Oldfield, 2011).

A significant proportion of lower income households struggle to pay bills or are in arrears. Research by the Financial Inclusion Centre (2011:23) shows that four times as many households whose income was solely from benefits were behind with their water bills and mortgage or rent payments compared with lower and medium income households. Lone parent and unemployed households are most at risk from arrears (Daffin, 2009; Kempson and Atkinson, 2006). Other debts for unsecured loans and rent-to-own

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<sup>1</sup> The consumer survey was one part of a broader piece of research. The survey comprised 1,451 telephone interviews with customers of home credit companies, pawnbrokers and payday lenders.

items put a further strain on low income households, which means less to spend on daily living and more being spent on debt repayments. A recent report by the Department for Business, Innovation and Skills (2011) found that one in five households that had borrowed money and had an income of less than £13,500 per year reported spending more than 30 per cent of their income on servicing debts; furthermore, around 40 per cent reported having debts equivalent to 60 per cent or more of their income (cited in Mathers and Sharma, 2011:14). A study by Balmer et al (2010) also found that lone parents and people with a mental health condition were more likely to report experiencing unmanageable debt. The direct link between experience of mental health issues and problem debt is also highlighted in a 2011 survey by MoneySavingExpert.com (Lewis et al, 2013). This survey found that 44 per cent of those that currently have, or have had, mental health problems have severe or crisis debts, compared with one in ten people who have never had mental health problems.

### **‘Getting by’ in low income households**

Previous research looking at credit use and debt in low income households found that credit is used to smooth income and expenditure flows (Ellison et al, 2011; Dearden et al, 2010). The underlying reason for credit use, however, is getting by on a very low income and a lack of savings that could be used before turning to credit. The UK is said to have a problem with ‘under saving’ (Berry and Serra, 2012) - one that is especially severe in low income households. Two-thirds (68 per cent) of low-income households have no savings, rising to three-quarters (78 per cent) of those in the lowest income quintile (Ellison et al, 2011:6). According to the Financial Inclusion Centre (2011: 29), low levels of savings are a very important indicator of financial risk: 29 per cent of households with no savings have debt-to-income ratios of more than 60 per cent, compared with only 11 per cent of households with more than £10,000 of savings.

A central factor explaining why credit use by low income consumers can turn into problematic debt is the high cost of the credit services open to them. Key services used by low income consumers are those in the high cost credit market, such as: rent-to-own stores, doorstep lenders (home credit companies), pawnbrokers, catalogues and payday loans. These services are used because employment is not a requirement for accessing credit, credit checks are not rigorous and payments are usually over an extended period of time in small weekly amounts. For example, doorstep loans over 14 to 52 weeks for payment for a washing machine may be £8.99 per week over 156 weeks. The overall price difference between buying a washing machine directly or through a rent-to-own store can be seen in the example in Figure 2.1.

Payday loans are a more recent addition to the alternative credit market and, although overwhelmingly used by low income customers, they are more likely to be taken out by those in paid work. Although theoretically designed for short-term use, from one to 30 days, extensions mean that extremely high interest payments can last for many months and APRs<sup>2</sup> of 4,000 per cent are common. According to a recent report by the Office of Fair Trading (OFT) (2013), half of the revenue of payday lenders comes from loans that are rolled over or refinanced. The OFT report found fundamental flaws in the practices of payday lending companies and ordered the top 50 payday loans companies to change or lose their credit licence. A survey for the magazine *Which?*, conducted in April 2012, found that more than 60 per

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<sup>2</sup> The APR is annual rate that is charged for borrowing expressed as a single percentage number that represents the actual yearly cost of funds over the term of a loan. This includes any fees or additional costs associated with the transaction.

cent of people who took out payday loans were using the money for household bills or buying essentials like food, nappies and petrol (cited in Clark, 2012).

The high-cost credit market has shown substantial growth in recent years with payday loans seeing the fastest growth. The payday loan sector is estimated by the OFT to have grown from £900m in 2008-09 to more than £2bn in 2011-12 and is predicted to increase further in 2013 (Financial Times, 2013).

**Figure 2.1: Example of cost differential between rent-to-own and direct buy**



## Attitudes and behaviour

As well as external circumstances, the factors that shape or constrain people's financial choices may also depend on their own attitudes and behaviour. The *Wealth and Assets Survey* (Daffin, 2009) collates data about assets and liabilities including information on individuals' savings, debt, borrowing and arrears and asks people about their attitudes to debt and saving. The survey findings include:

- 35 per cent of participants said they had never saved, with only 21 per cent of these saying they were likely to do so in the future
- Those with a strong orientation to spending were the least likely to save any money
- The *less* recently someone had saved, the more likely they were to be strongly or moderately orientated towards spending

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<sup>3</sup> Including optional service cover (OSC) and damage liability cover, which is compulsory for purchase (and bought by the majority of BrightHouse customers). The pricing of goods is unclear on both the website and in the catalogue, only the cost including the OSC is shown (£911), despite the damage liability insurance being compulsory for the vast majority of customers, which comes to a total final cost of £1,613.14. Sources [accessed May 2012]:

[www.cooplectricalshop.co.uk/Hotpoint-AQ113D697S-11Kg-1600-Spin-Washing-Machine/id-HOT-WSH-AQ113D697S-S](http://www.cooplectricalshop.co.uk/Hotpoint-AQ113D697S-11Kg-1600-Spin-Washing-Machine/id-HOT-WSH-AQ113D697S-S)  
[www.brighthouse.co.uk/products/washers-and-dryers/hotpoint-11kg-washer-silver/](http://www.brighthouse.co.uk/products/washers-and-dryers/hotpoint-11kg-washer-silver/)

- 93 per cent of people who said that they never or hardly ever had money left over at the end of the week or month said they could not afford to save.

This research indicates that saving for individuals on a low income was a significant challenge. It also demonstrates a positive correlation between being a 'spender' and the inability to save.

### **Poor decisions?**

While poor money management may be seen as causing unmanageable debt, longitudinal research has found that problem debt often results from changes in circumstances, such as job loss or having a family. As Deardon et al (2010: 5) comment:

Once living with debt or credit commitments, the impact of living on a low income for sustained periods was that people often found budgeting and financial management extremely difficult.

The impact of poverty on finances and self-control has been explored by psychologists and economists. Holmes (2011) suggests poorer people have to make rigorous trade-off calculations when taking purchasing decisions – which is not the case for better-off consumers. This research demonstrates that these daily calculations are not only stressful, but deplete willpower. Put simply, it is not that the poor *lack* willpower but that being in poverty saps willpower leading to poorer decision-making.

According to Gloukoviezoff (2011), it is essential to take into account the context in which decisions are taken, and the nature of the services available to people, in order to understand why individuals' 'decisions' lead to financial difficulties. He argues that the frequent demands facing those in poverty have an impact on the way decisions are made because of the emotions generated, impacting on decision-making. He makes the point that although rationally a 'wrong' choice, a choice might nevertheless have to be made. He offers an example:

[A] lone parent who does not have any more money and who needs to pay for the school uniform of her child will borrow money even if she knows that this loan will make her situation even more difficult. The loan gives her a short-term solution, which is what she needed. When a person is living in poverty, planning ahead and neutralising emotions is often just a wish. (Gloukoviezoff, 2011: 36)

It is not necessarily that people are making 'bad' choices when deciding where to access credit; rather, people use the 'wrong' financial services because these are the only ones they can access. Behavioural economics literature suggests that people do not always act rationally, and 'their decisions are not always optimal' (Hira, 2012: 502). However, the question of what is 'rational' cannot be decontextualized from the circumstances in which people live. Furthermore, questions about how people spend their money, and what they spend it on, are often only directed at those in poverty or the super-rich. People in poverty are subject to moral discourses of spending and responsibility to which wealthier groups are not. As Hohnen (2007: 764) notes:

Poor families' consumption is a manifestation of the family's moral status, making it very difficult (sometimes impossible) for the family to distribute its financial resources in a way that they and others regard as legitimate.

## **Concluding comments**

Previous research has shown that problematic debt in poor households is often linked to the use of high cost credit. Whilst taking out high cost loans may appear to be an 'irrational' choice, in circumstances where low income households are excluded from mainstream financial services and require credit to 'get by', their choices may be very limited. Hence the aim of the *Debt on Teesside* project was not only to examine in detail the dynamics of household debt over time, but also to explore by means of mentoring and campaigning the extent to which individuals' attitudes and behaviour and the policies and practices of high cost credit companies could be changed. The methods and approach adopted are discussed in the next chapter.

## 3. The project: methods and approach

### Introduction

This chapter outlines the aims and methods of the project, the recruitment of households and mentors, the design and setting up of the research, mentoring and campaigning elements of the project.

### Aims and approach

The *Debt on Teesside* project started on 1<sup>st</sup> May 2011, with the researcher joining on 1<sup>st</sup> July. The staff included a half-time community organiser (split into two part-time posts in January 2012), a half-time researcher, a one-day a week secretary and supervision/management from Durham University and Church Action on Poverty (CAP). The project was based at Thornaby Methodist Church, in an office already occupied by Thrive.

The project worked with low income households experiencing unmanageable debt, with the aim of supporting positive change away from high cost credit towards more financially sustainable alternatives. The majority of the 24 households that initially joined the project were recruited in Middlesbrough, Stockton-on-Tees and Thornaby between Autumn 2011 and Spring 2012.

The project was designed within an ‘action research’ framework (Reason and Bradbury, 2008) with an explicit focus on bringing about change both at an individual household level (via mentoring) and also at the level of collective action for organisational and policy change. A mentoring scheme was established in order to generate intensive, long-term, one-to-one support to enable households to develop their skills and confidence in relation to money management. The ‘action’ element sought to encourage positive changes in money management, leading to a reduction in levels of debt and better informed choices. It also aimed to build networks, hence reducing isolation and encouraging local people to get hold of their own issues, work together collectively and take action for change. The research element of the project was designed to explore what factors impacted on people’s financial choices, attitudes to money management and debt and to examine what influence mentoring (rather than one off debt advice) might have on behaviour, attitudes and choices around finances. Box 3.1 summarises the aims, objectives and research questions.

#### Box 3.1: Aims, objectives and research questions

##### The overall aims of the project were to:

- develop a sustainable programme of household mentoring on money management linked to community-based campaigns and cooperations to tackle the causes of high levels of debt in poor households on Teesside.
- undertake ongoing evaluative research using an action research model to explore the effectiveness of individual mentoring; methods for stimulating and supporting individual behavioural change by debtors and organisational and policy change by lenders; and pathways to collective action.
- utilise and disseminate learning from the project to embed money management in Thrive and to use the learning in other agencies.

**The research questions relevant to the research element of the project were:**

1. What factors shape and/or constrain the financial choices made by the individuals and households participating in this project?
2. How effective is intensive, one-to-one mentoring by trained volunteers in changing the behaviour and attitudes towards managing money of people who have severe debt problems?
3. What contribution does engagement in community-based activities have on people's financial choices and how does this impact on their abilities to manage money?
4. What role can various partner agencies play in developing a coordinated approach to tackling financial exclusion in poor neighbourhoods?
5. What are the key lessons that can be learnt from this project that can be used elsewhere, and that can be built into the ways of operating of both specialist debt advice agencies and generic community projects in poor neighbourhoods where high levels of debt are problematic?

**The objectives of the action element of the project were to encourage:**

1. Greater understanding of how to manage money.
2. Changes in attitudes and behaviour towards money management, leading to
3. Reduction in levels of debt and better informed choices.
4. Improved overall self-confidence, ability to plan, make decisions, take control of money and other aspects of lives.
5. Building relationships and networks, hence reduced isolation, more support, possibilities for signposting to advice agencies.
6. Improved sense of well-being, mental health and impact on other aspects of people's lives.
7. Ability for local people to get hold of their own issues, to work together collectively and take action for change.

### **Collaborative action research**

As the project was designed to work with local people and organisations to influence change and to use findings and learning as it progressed, the Advisory Group was a vital element of its work. This was established at the start of the project, with its first meeting taking place in June 2011, followed by quarterly meetings thereafter. Membership included active representatives from Stockton and District Advice and Information Service, Tandem Finance Project, Tees Credit Union, Five Lamps (a Community Development Finance Institution), Durham University's Wolfson Research Institute and Teesside University. This provided an invaluable opportunity to gain advice on developing and modifying the research design, interpreting findings and considering implications for policy and practice. One of the Advisory Group meetings in December 2012 was expanded to take the form of a 'partners' meeting' to discuss the policy and practice implications of emerging findings. This meeting included representatives

from a range of interested third sector and statutory bodies and a representative from the office of the local MP, Alex Cunningham, who took a close interest in the project throughout.

The project was also a collaboration between Durham University (which was the fund-holder, providing overall project management and employed and supervised the researcher and secretary), Church Action on Poverty (which supervised the community organising and campaigning element of the project, employing the community organisers) and Thrive (a local partner organisation of CAP, which provided the office base, links with volunteers and its other community organising work). Although these organisations had worked together in the past, this project was much larger and more complex than previous collaborative projects. It raised challenging issues around reconciling different values, priorities and ways of working – not unexpected in community-university partnership working, but nevertheless requiring considerable time and commitment to maintain the partnership.

## **Ethical issues**

### **Ethical issues anticipated**

The main issues anticipated were around how the partnership would work, and some of the complexities relating to confidentiality if people from the local community acted as mentors. A partnership agreement was made between Thrive and Durham University, outlining the responsibilities of each organisation. The University was the grant-holder, hence responsible for the project overall, and was primarily responsible for the research aspects of the project, whilst Thrive was responsible for recruiting and supporting households and mentors and for campaigns. Accepted ethical guidelines were followed for social research (Social Research Association, 2003) and community-based participatory research (Centre for Social Justice and Community Action and National Coordinating Centre for Public Engagement, 2012), including preparing a clear information sheet, obtaining informed consent of households at the start of the project and ensuring safeguards regarding anonymity of households and storage of data. In the training of mentors, issues of anonymity, confidentiality, handling sensitive issues, over-involvement and personal safety were covered (see community mentoring toolkit produced by the project, Centre for Social Justice and Community Action, 2013).

### **Ethical issues arising**

Some participants were willing to give consent and sign up to the project on an initial visit from a Thrive worker, before learning the full details of what was involved. To ensure that participants understood the implications of their involvement and uses of the information, the researcher read through the consent form in detail prior to the initial interviews and gave examples of possible uses of the data.

During the course of the project, it became clear that a significant number of participants were experiencing mental health-related problems. This led to discussion by team members about potential exploitation of participants, including consideration of the extent to which their consent was fully 'informed'. One of the approaches used in the campaigning element of the project was to hold public assemblies, at which people with direct experience of high levels of debt were asked to speak. Whilst this gave voice to people facing financial exclusion, it also exposed people to potential public embarrassment and emotional pain. The project workers recognised the importance of supporting people fully through this process, and spent considerable time preparing with participants beforehand and debriefing afterwards. At one event a participant who had spoken about her high levels of indebtedness broke down in tears, and some members of the audience were concerned about this. The project team discussed the situation afterwards amongst themselves and with the person concerned.

The person who had spoken said she did not regret this. For the team this highlighted the fine line between being exploitative and over-protective, and the sensitive work that has to be done in order to respect people’s privacy while also enabling them to voice their experiences and concerns.

An unexpected issue arose regarding a donation accepted by Thrive. In the middle of the research project, Thrive’s Management Committee accepted a donation of several thousand pounds from the staff fundraising efforts of a high-cost credit company, Buy As You View. Thrive had previously campaigned against the unethical practices of this company and at the time was working with the company to reform some of its ways of working. The Durham University partners found out about the donation after it had been accepted. This caused some tension and debate within the project team. Thrive’s community organising approach is premised on the idea: ‘no permanent friends, no permanent enemies’. This means that their tactics include working with organisations against which they have campaigned in the past, in order to effect reform. Taking money from Buy As You View was not regarded as compromising the integrity of Thrive’s work nor the research. The two University staff, however, felt that accepting a donation of this kind contributed to giving credibility to a high cost credit company, whose core business revolved around exploiting poor people. It might also damage the integrity of Thrive’s work, and by association the action research project. However, since the donation was to Thrive and the Thrive Management Committee had accepted it, the University staff could do no more than put the counter-arguments and request a discussion in advance if a similar situation occurred again. The fact that the project team discussed the matter fully and listened to each other’s points of view was testament to their commitment to collaborative working.

### **The Teesside area**

The name ‘Teesside’ is generally used to refer to the area in the North East of England made up of the towns of Middlesbrough, Stockton-on-Tees, Thornaby, Billingham and the surrounding settlements that were formerly part of Teesside Borough Council until 1974. This is a smaller area than the ‘Tees Valley’, which refers to the districts formerly covered by Cleveland County Council until 1996 (the now unitary authorities of Hartlepool, Middlesbrough, Redcar & Cleveland and Stockton) and Darlington Borough Council.

**Table 3.1: Location of households**

<b>Town</b>	<b>Ward</b>	<b>No. of households</b>
<b><i>Middlesbrough</i></b>	Hemlington	2
	North Ormsby & Brambles Farm	4
	Pallister	2
	Thorntree	4
<b><i>Stockton-on-Tees</i></b>	Hardwick	1
	Newtown	1
	Norton South	1
	Stockton Town Centre	1
<b><i>Thornaby</i></b>	Mandale and Victoria	8

The Teesside area, and Middlesbrough in particular, performs badly against economic and social indicators, with the majority of wards in Middlesbrough falling within the 10 per cent most deprived nationally (Department for Communities and Local Government, 2011). The households that were recruited for the *Debt on Teesside* project (listed in Table 3.1) were located in some of the most deprived wards in the towns of Middlesbrough, Stockton-on-Tees and Thornaby.

Between 1991 and 2011, some wards in Teesside became more deprived (based on the Index of Multiple Deprivation) including North Ormesby & Brambles Farm and Thorntree in Middlesbrough<sup>4</sup> and Hardwick and Stockton Town Centre in Stockton.<sup>5</sup> Tees Valley Unlimited (a Local Enterprise Partnership) has collated Tees Valley Statistics with data from the Census (2011), the Indices of Multiple Deprivation (2010), the Department of Work and Pensions (income support and benefits data in 2012) and HM Revenue and Customs (child poverty data in 2008)<sup>6</sup>. These data demonstrate the incidence of deprivation in the boroughs of Middlesbrough and Stockton (which includes Thornaby) compared with national averages in England (see Table 3.2).

**Table 3.2: Deprivation indicators for Middlesbrough and Stockton compared with national figures<sup>7</sup>**

Indicator	Middlesbrough	Stockton	National (England)
Households receiving income support (%) May 2012	10.0	6.2	5.4
Working age population receiving key benefits (%) May 2012	20.5	14.6	12.4
Children in poverty (%) 2008	33.5	21.3	20.9
Children living in Out Of Work Benefit Claimant households (%) 2011	34.5	22.3	19.8
Households with no car (%) 2011	37.6	25.9	25.6
Households with no-one working (%) 2011	23.0	15.2	9.9

Middlesbrough as a whole has a high incidence of children living in poverty (33.5 per cent compared with the average of 20.9 per cent nationally), with the wards in which participating households were located having particularly high rates of child poverty (e.g. 60 per cent in Thorntree and 49 per cent in North Ormesby & Brambles Farm). Stockton also has serious concentrations of child poverty and deprivation, with 51 per cent of children in the Stockton Town Centre ward in poverty in 2010. Teesside has also been shown to a high level of need for financial inclusion interventions (Financial Inclusion Taskforce, 2007). Previous research has shown that indebtedness is a significant problem for poorer households in these areas (Orr et al, 2006; Vale, 2009).

## Household research: recruitment and methods

### Recruitment of households

As the project was looking specifically to recruit households that were experiencing poverty and problematic debt, potential areas were identified from the Index of Multiple Deprivation (2010) in the boroughs of Stockton-on-Tees and Middlesbrough. A widespread recruitment strategy was undertaken in the target areas via advertising and seeking referrals from professionals in community centres, children's centres, local citizens' advice services and churches. However, this approach generated little response, hence recruitment was undertaken door-to-door. This meant that the project reached many

<sup>4</sup> Middlesbrough Council, [www.middlesbrough.gov.uk/index.aspx?articleid=2135](http://www.middlesbrough.gov.uk/index.aspx?articleid=2135)

<sup>5</sup> Tees Valley Unlimited, [www.teesvalleyunlimited.gov.uk/media/50728/index\\_of\\_multiple\\_deprivation\\_2010.pdf](http://www.teesvalleyunlimited.gov.uk/media/50728/index_of_multiple_deprivation_2010.pdf)

<sup>6</sup> Tees Valley Statistics, <https://www.teesvalleyunlimited.gov.uk/tees-valley-unlimited/information-hub/economic-intelligence.aspx>

<sup>7</sup> [https://www.teesvalleyunlimited.gov.uk/InstantAtlas/WARDS/report\\_Ward\\_00ECPA.html](https://www.teesvalleyunlimited.gov.uk/InstantAtlas/WARDS/report_Ward_00ECPA.html)

households that were relatively isolated and not in touch with advice and support agencies. Criteria for acceptance into the project were that households had a low income (below 60 per cent of median income, a commonly-used indicator of low income in the UK<sup>8</sup>), were experiencing self-reported problematic debt and were willing to participate in the mentoring scheme. The areas from which households were recruited are predominantly white, working-class neighbourhoods and all participants were white British. Over 30 households expressed an interest in joining the project, of which 24 participated in an initial interview when the detailed questionnaire was completed.

### **Preliminary focus groups**

Two preliminary focus groups were held in the areas from which the households were being recruited in order to obtain information on attitudes, views and experiences relating to debt in low income households. One focus group was held in Hemlington in June 2011 with six participants, all women, one of whom became a household participant in the mentoring scheme. A second focus group was held July 2011 at a children's centre in Stockton with three female participants, none of whom took part in the mentoring scheme. The focus groups sought to explore knowledge of financial products and services, which types of financial products were used and why. This information was used to inform the design of the questionnaire and the mentoring scheme.

### **Questionnaire and household interviews**

Detailed financial information was gathered from each of the 24 households. This was generally given by one adult household member, the 'key contact', via a detailed questionnaire completed during an initial interview by the researcher or Thrive worker.

The questionnaire was the key tool for obtaining a demographic and financial overview of each household. A summary version of the full questionnaire is in Appendix 1. Information was requested on: demographic characteristics of the household, income, financial services used, savings, credit and debts and attitudes on money matters. Questions about health and well-being were also included, asking people to rate their attitudes and circumstances using a Likert scale. The questions about household finances were designed to gain information on details of income, debt and credit based on Thrive's previous experience in this field, issues identified in the literature, the information gathered from the focus groups and advice from the Advisory Group. Questions relating to attitudes towards finance and self-evaluations of well-being were based as far as possible on recognised scales and measures. Questions on attitudes to financial matters were modified from Lea et al. (1995) and Troisi, et al. (2006). The health and well-being questions were based on the Defra (2011) measures of life satisfaction and well-being. The questionnaires were piloted and amended before use.

The questionnaire was designed to gather quantitative information with scope for qualitative information via various open-ended questions. The initial interviews were audio-recorded and later transcribed. Further semi-structured interviews were conducted with six households (selected because they were willing and available to be interviewed) midpoint in the project and again at the end of the project (one of these was by telephone). Throughout the project, mentors collected data via session sheets and fed back at monthly mentor meetings. The session sheets asked about changes, progress and included an account from the mentor regarding how the mentoring relationship was progressing. Two workshops were held with some household participants in June and December 2012 and the information gained from these also fed into the analysis.

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<sup>8</sup> [www.poverty.org.uk/01/index.shtml](http://www.poverty.org.uk/01/index.shtml)

Two data analysis packages - Statistical Package for the Social Sciences (SPSS) and NVivo (a qualitative data organising package) - were used for organizing and assisting in analysing the data from the project.

### **Workshops with households**

The two workshops held in 2012 were designed to bring participants in the project together informally as well as to gather information. The first workshop in June 2012 was attended by eight household participants and three community mentors. It focused on exploring the problems the households faced in daily life regarding money management and debt (see report of workshop at [www.dur.ac.uk/beacon/socialjustice/researchprojects/debt\\_on\\_teesside/](http://www.dur.ac.uk/beacon/socialjustice/researchprojects/debt_on_teesside/)). After identifying some of the difficulties and barriers, two of the issues were discussed in more detail: 'Not being able to treat or get stuff for kids/yourself' and 'the difference between wants and needs'. Potential solutions were explored, including sources of cheaper energy and second hand goods. Participants were also asked about the good and not so good aspects of their mentoring sessions and had a tip sharing session on increasing or saving money. A further workshop was held just prior to Christmas 2012, attended by five participants, which explored Christmas budgeting, a discussion on doorstep lenders – 'Santa Claus or Fagin' – and asked participants for their views on credit unions.

**Table 3.3: Stages of household research and mentoring**

Recruit mentors	June 2011 onwards
Recruit households	July 2011 onwards
Preliminary focus groups	June, July 2011
Design household questionnaire & mentoring training	July-September 2011
Run mentor training	September 2011
Start initial household interviews	September 2011
Start mentoring	October 2011
Household workshops	June, December 2012
End mentoring	March 2013

## **The mentoring scheme: recruitment and methods**

### **Mentoring**

Mentoring is a particular way of working with people in order to facilitate self-development and self-learning. The *Debt on Teesside* project included an element of one-to-one mentoring for households, as this kind of mentoring support can make a difference to people's learning processes and consequently encourages change in behaviour (see Colley, 2003; Kochan and Pascarelli, 2003). As Rolfe (n.d.: 3-4) comments: "Two heads are better than one" is the essence of a mentoring relationship'. A mentor can serve as a resource for gathering information, a sounding board for setting goals and a critical friend, who is able to help work through decisions. Developing mentor support relationships provides an opportunity to engage in meaningful conversations that can impact on thinking processes, attitudes and feelings and consequently the behaviour of mentees. Mentoring can make a real difference to people who find themselves struggling. The *Debt on Teesside* project drew on a range of guides and generic resources to develop its financial mentoring scheme (e.g. Allan and Eby, 2007; Alred and Garvey, 2010; Hussain, 2009), which is briefly described in the next section.

### **Recruitment and training of mentors**

The project sought to recruit 20 mentors (who would work in pairs for safety) and we advertised on the Do-it volunteer website ([www.do-it.org.uk/](http://www.do-it.org.uk/)), in the local volunteer centres and with the Stockton and District Advice and Information Service (SDAIS, the local Citizens' Advice Bureau). Initially five community mentors were recruited through the Volunteer Centre and Thrive's network of volunteers. Due to difficulties in recruiting sufficient community mentors, four employees from SDAIS and one from Tandem Finance (both organisations represented on the project Advisory Group) were seconded to the project. Seconded employees offered some stability and brought with them additional skills, knowledge and expertise.

Although it was anticipated that each mentor pair would support four households, increased workloads at SDAIS meant this was reduced in Spring 2012 to one household. To enable the mentoring support to meet the needs of the households, and due to some mentors leaving the project, six further mentors were recruited later in the project: four community volunteer mentors, another volunteer who was also employee of one of the organisations on the Advisory Group (Five Lamps) and a Thrive project officer. During the course of the project 16 mentors were involved, with 13 offering at least one mentoring session.

Mentors attended training over two days, which looked at what mentoring involved and introduced research methods (as mentors were also collecting financial and other information from households). The initial mentor training programme was delivered on 28 and 29 September 2011 by Greg Brown (Thrive community organiser) and Jan Flaherty (researcher). For mentors joining the project later, the training was delivered by Tracey Herrington on a one-to-one basis. The training covered the areas shown in Box 3.2.

#### **Box 3.2: Areas covered by mentoring training**

- An overview of mentoring, including its purposes
- Mentor roles and boundaries
- Facilitating mentor sessions – guidance and session sheets (including setting goals, budgeting, decision-making, thinking about money management and reviewing progress)
- Looking at case studies/experiences of mentoring
- Exercises to build research skills and confidence, e.g. 'being a good listener'.

A folder with a directory of local and national advice and support agencies, as well as session plans and feedback sheets, was given to each mentor. Monthly mentor meetings were held to offer peer support, report on household updates and provide additional support and guidance.

### **How the mentoring scheme worked**

The first step for mentors was to familiarise themselves with the data gathered at the initial interview, build a relationship with the household to which they were assigned and establish goals with the household regarding their financial situation and debts. In order to carry out their role effectively, mentors were provided with guidelines and session plans that gave some consistency in the delivery of

sessions between mentors, whilst still allowing flexibility to meet individual household needs. The effective delivery of sessions relied upon mentors carrying out the exercises as listed in Box 3.3.

### **Box 3.3: Exercises used by mentors with households**

- Completing a household budget sheet – noting total income and outgoings
- Working on agreeing a household budget plan
- Identifying priority and non-priority debts
- Setting some goals - short, medium and long term goals felt to be achievable and realistic, with specific steps identified
- Agreement of an action plan.

Throughout the delivery of the mentoring sessions, mentors were encouraged continuously to review the impact of their sessions and note actions taken. Mentors completed session feedback sheets and commented on progress to date.

### **Community action and campaigns: the community organising approach**

The *Debt on Teesside* project was part of a broader programme of related work undertaken by CAP and Thrive in the Teesside area. The work of the project fed into Thrive's campaigns and actions both locally and nationally, including on-going policy-related work to reform the rent-to own sector (described in more detail in Chapter 8 of the report).

CAP has a history of working in Teesside since 1996, its previous projects including: 'Communities Miles Apart', an exchange between Thornaby and Manila to compare experiences of poverty in the UK with that of countries in the global South; 'Local People, National Voice'; and poverty hearings to get the voices of people in poverty directly to those in power. CAP continued its work through the Thrive project, which was set up in January 2007. Working in Stockton-on-Tees in partnership with Oxfam UK's Poverty Programme, CAP and Thrive piloted the use of the Sustainable Livelihoods Approach (SLA), an holistic approach to tackling poverty used in the global South. This action research engaged some of the most marginalised and financially excluded households in Stockton, many of which were using rent-to-own agreements to purchase goods (Orr et al., 2006). Following the SLA project, some participants decided to undertake a campaign to change some of the practices of these companies. Several small projects were undertaken on debt and mental health, some in partnership with Durham University (see Beacon NE, 2011; Friends Provident Foundation, 2010). The *Debt on Teesside* project aimed to build on this success, further developing campaigns around financial inclusion and high cost lending.

### **The CAP approach to community organising**

CAP has developed an approach to working with communities and organisations called 'broad-based community organising'. The model adopted by CAP is based on the work of Saul Alinsky, a North American activist who developed tactics for mobilising coalitions of organisations around a specific issue, organising campaigns and training local organisers (Alinsky, 1969, 1989; Bunyan 2010; Pyles, 2009). In particular, CAP follows the approach of the Chicago-based Gamaliel Foundation ([www.gamaliel.org](http://www.gamaliel.org)), which offers training in the UK for CAP organisers and local people. The Gamaliel Foundation model is based on the philosophy that:

People have a right and a responsibility to define their own destiny, to participate in the decisions affecting their lives, and to shape the social, political economic and physical environment to include their values.

Thrive holds meetings and carries out direct actions on local campaigns or ‘issues’ raised by members and participants in its community projects. The issues are raised by member groups and based on values of fairness and equality. As opposed to setting up community projects to respond to need, issues and action campaigns are designed to change the structures of local policies and develop processes for transformative change. For example, instead of setting up a CV writing work club, community organising is about working with the local Department for Work and Pensions or employment agencies to take better account of the needs of people claiming benefits and better tailoring support for the move back to work. Or instead of setting up a debt counselling service, a community organising issue would be to challenge the practices of high-cost lenders in an area or set up a large-scale payroll deduction scheme from key employers to increase the reserves of the local credit union. Thrive has built up a reputation for working on issues of financial exclusion, though it does work on other issues including asylum seeker accommodation and helping to improve services at the local Job Centre. During the course of the *Debt on Teesside* project, participating households were encouraged to participate in the community action and campaigning work of Thrive. They were supported to attend public assemblies, participate in community organising training and specific campaigns. This approach requires intensive support and planning on the part of Thrive project workers. Table 3.4 summarises the actions and campaigns that happened during the course of the project, of which further details will be given in Chapter 8 of the report.

**Table 3.4: Community actions and campaigns during the project**

Work with Centre for Responsible Credit (CfRC) on rent-to-own reforms	January 2011- Sept 2012
Public Assembly, Stockton	November 2011
Incentivised savings with Credit Union	March 2012
Launch campaign raising awareness of doorstep lending	November 2012
Public Assembly, Middlesbrough	November 2012
Roundtable with CfRC and others on data-sharing and affordability	January 2013
Community Organising training	March 2013
Making film for affordability campaign	March 2013
Celebratory Learning Event, Thornaby	April 2013

### **Concluding comments**

The project was ambitious in its aims and complex in its action research design. Given the types of households involved, the challenges of retaining them in the project and the complexities of the mentoring scheme, the project was under-resourced. The time-consuming nature of collaborative action research and the practical and ethical challenges it raises need to be taken into account in project design and funding. Nevertheless, the combination of partners (national and local level charitable organisations and a University) led to a unique project that would not have been possible if conducted by any of the organisations on their own.

## 4. The households and their finances

### Introduction

This chapter outlines the characteristics of the 24 households and gives an overview of household finances, levels of debt and attitudes towards debt and credit based on the initial household interviews.

### Household characteristics at initial interview

Twenty-four households were recruited to the project (see Appendix 2 for a brief overview of each household). All households were experiencing income poverty (defined as below 60 per cent of median income) and unmanageable debt, while many had additional problems in terms of disability and ill health. Material deprivation was also apparent in many households, the most extreme being respondents who were sleeping on sofas in their living room in privately rented accommodation, which had no cooking facilities except for a microwave. Several households, including families with children, were unable to keep their homes warm because they could not afford to use gas and were therefore living in very cold conditions, at least some of the time. Many of the characteristics of the participating households (living in poverty, benefits as the sole source of income, poor health, long-term unemployed) put them into the 'high risk' category for financial vulnerability and debt, as discussed in the review of the literature in Chapter 2 (see Appendix 3 for a table summarising the risk factors for each of the 24 households).

### Household overview

Just over half the households taking part were lone parent families, two of which were headed by lone fathers and two by widows. All households comprised adults of working age and of those interviewed (the key contacts), six were under 24 years old, nine were 25-34, five were 35-44 and four were between 45-59 years old.

At the time of recruitment, no key contacts reported being in paid work but two of the couple households had a partner in paid work; all other households received income solely from benefits or a mixture of benefits and tax credits. All of those who were unemployed (7) were long-term unemployed (more than 12 months) of which four had been continuously unemployed for five years or more and three had been in and out of work over the last five years. Of the seven couple households: two had a partner in work, two had partners who were sick or disabled, two were unemployed and one 'didn't know'.

**Table 4.1: Given occupation of key contact by household type**

Occupation	HOUSEHOLD TYPE			TOTAL
	Couple (non-pensioner)	Lone parent (female)	Single (no children)	
Parent/homemaker	3	4	0	7
Carer	1	1	0	2
Sick	1	3	3	7
Unemployed	2	4	1	7
No answer	0	1	0	1
<b>TOTAL</b>	<b>7</b>	<b>13</b>	<b>4</b>	<b>24</b>

Problems with health were prevalent among participating households. Mental health issues affected nine out of 24 households, and a further nine households had participants with physical health problems such as epilepsy, diabetes or lung and heart conditions. Health issues and disabilities were key reasons why many participants were out of paid work and in receipt of disability benefits.

The life satisfaction and well-being measure, used in national surveys by the Department for Environment, Food and Rural Affairs (Defra, 2011), was included in the initial questionnaire. In the Defra survey the national average rating in March 2011 was 7.7 (on a scale of zero to 10). The average rating for the participants in the *Debt on Teesside* project was 5, which is lower than the national average. Eighty-six per cent of national respondents in the Defra survey gave a rating between 6 and 10, suggesting that they were satisfied overall, compared to a just third of our participants (eight out of 24).

## Money management in participating households

### Basic banking

Seven households had no bank account. This compares unfavourably with the national average of three per cent of households nationally (generally the poorest and most deprived households), according to research by the Financial Inclusion Taskforce (2010:2). In our project, of the 17 households that reported having a bank account, 13 had basic bank accounts (see Table 4.2).

**Table 4.2: Banking by household type**

Household type	No bank account	Basic bank account	Current bank account	TOTAL
Lone parent	4	8	1	<b>13</b>
Couple with children	0	3	3	<b>6</b>
Couple no children	1	0	0	<b>1</b>
Single person	2	2	0	<b>4</b>
<b>TOTAL</b>	<b>7</b>	<b>13</b>	<b>4</b>	<b>24</b>

Basic bank accounts allow wages, benefits and tax credits to be paid in and in some cases such accounts offer direct debits and standing order facilities. Some of the participants, who were currently unbanked, had bank accounts in the past. However, they had experienced problems with direct debit payments being paid when there was no available cash, incurring penalty charges which were disproportionate to the household income. This had led to them closing their bank accounts.

### No savings

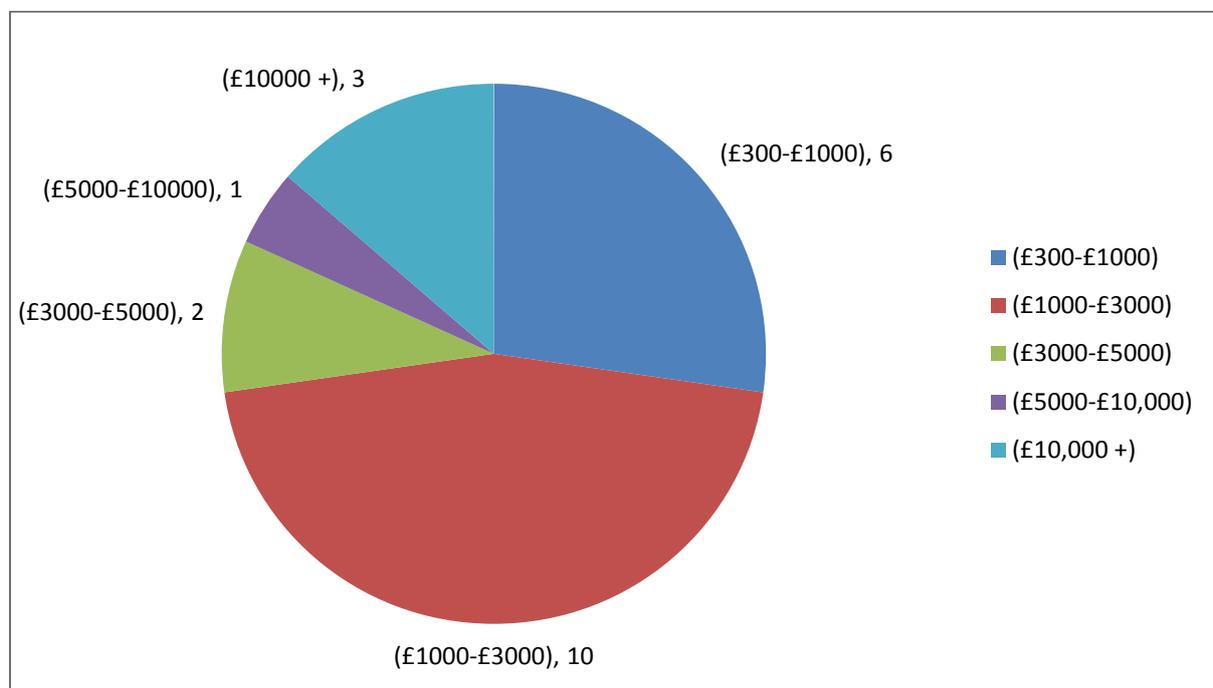
Only one household had savings, reported as £4. Participants felt that if they had more disposable income they could afford to save, but that in their current financial situation there was no spare money as it was all used on day-to-day necessities. Some participants reported having tried to save for something specific, but the money was then needed for more immediate use and therefore the savings goal was never reached. The fact that people tried to save and 'failed' consequently demotivated them.

### Underestimation of household debts

I pay £22 a week to BrightHouse, £18 to PerfectHome, TV licence and £20 rent - Oh, I don't know - and Jacobs [bailiffs] £15 a fortnight. Oh god, I don't know in total...  
(Household 23, initial interview)

Amounts of total household debt given by participants ranged from £340 to more than £10,000. Two did not know how much the household debt was (see Figure 4.1). However, when more detailed financial information on individual debts was given, it emerged that most people underestimated their total debt. In some cases, the debt was underestimated by several thousand pounds and in one case by £5,000. It also emerged that participants did not count loans from the Social Fund or from family as 'debts' (credit commitments and debts will be examined in detail in Chapter 5). A third of the participating households had rent arrears and three households had council tax arrears - priority debts which can cause eviction.

Figure 4.1: Amount of household debt at initial interview (22 households)



### Avoiding repayments

A number of participants had left debts behind when moving house or had actively tried to avoid repayments, including bank loans, catalogue payments and doorstep loans. Although participants talked of these debts as having 'disappeared', such debts often came back to haunt them at a later date.

### Threats of legal action

Most households reported being pursued for their debts. For example, at the time of the initial interview, 20 households reported that they had been threatened with legal action in the past 12 months, 13 had received letters from bailiffs and eight felt that they were being harassed by creditors. Two households had been evicted because of unpaid debts.

## Stress and powerlessness

The worry of debt, or of falling into debt, caused significant stress for most participants. However, some people had become inured to threats and demands for repayments and consequently ignored them as a result. This appeared to be a coping mechanism in response to situations that people felt were out of control and which some participants felt that they could not escape and be debt free. In this way a sense of powerlessness often accompanied problem debt.

## Pathways into debt

Changes in lifestyle and fluctuations in income seemed to be the key reasons why participants in the study found themselves on a pathway to unmanageable debt. Reasons for getting credit, leading to debt, can be divided into major events and everyday uses, as shown in Table 4.3.

**Table 4.3: Pathways into unmanageable debt**

Major events	The everyday
<ul style="list-style-type: none"><li>• Benefit changes</li><li>• Unemployment</li><li>• Moving house</li><li>• Having a baby</li><li>• Relationship breakdown</li><li>• 'Cost of living going up, but income not'</li></ul>	<ul style="list-style-type: none"><li>• Food</li><li>• Energy bills</li><li>• Rent</li><li>• Debt repayments</li><li>• Bank charges</li></ul>

## Major events or changes in circumstances

Major events can either prompt people to get credit, increase credit or hamper the ability to repay. Losing benefits, such as Employment and Support Allowance, changes due to a partner's death, or mistakes with benefit administration were all identified as reasons for getting into debt. Eight participants identified changes in benefits, whilst a further four said unemployment led to their debt situation:

It was the child tax credit, they just stopped my money one day and that Thursday till the following Thursday I had to go without, just £47, and it got worse from there kind of thing.  
(Household 16, initial interview)

He [husband] was off [work] for two years before he died and was on DLA [Disability Living Allowance] and all that. When you're getting that a lot of places don't count it as income for rent purposes ... so suddenly that all goes and they count what I'm left with and they expect you to pay rent. But you've got half the amount of money, but have to pay a load more ...  
(Household 5, initial interview)

Changes in benefit were often bound up with other events, such as having a baby, relationship breakdown or moving house (or a combination) - further major events which put a strain on finances and in themselves were given as causes for getting into debt. Six participants said having a baby and moving house caused their current debt; whilst five said relationship breakdown.

Ongoing health issues were underlying factors in five cases. Health issues brought additional living costs, while poor mental health might cause difficulties in managing money.

### **Everyday expenses**

Whilst major events sometimes tipped people into problem debt, participants were also using credit, and getting into debt to pay for everyday expenses such as food and fuel bills. Participants identified arrears on rent and household bills as reasons why they had got into problem debt. Bank charges were also mentioned as an occurrence that had tipped two of the households into problem debt. Once participants had got into the routine of using credit, such as a doorstep loan, to pay for essentials, then this became part of their weekly expenses and so began a cycle of loans. Nine participants said they used credit (which had led to their current indebted situation) out of necessity.

One participant had significant debts left from a previous partner. Two other households said overspending and mobile phone contracts when younger were reasons for their current debt situation because it had damaged their credit rating. Once a poor credit history occurs credit options become limited:

When I was 17, 18, 19, at the time you just think nothing of it, just money in my pocket.  
(Household 24, midpoint interview)

[It's] still having a negative effect now. Because of what I did when I was younger [didn't pay mobile phone contract] and I was stupid. Er, I can't get credit anywhere. I can't get credit! Try getting a catalogue to get things for house, it's like: 'No. Your credit history is bad'. So, so everything now is cash, I have to pay everything in cash. (Household 15, initial interview)

### **Attitudes to credit and debt**

The questionnaire asked a number of questions examining respondents' self-reported attitudes towards money matters (see Appendix 1). It must be borne in mind that expressed attitudes may not necessarily reflect lived attitudes or behaviour. It is often the case that poorer households resort to credit, and are limited to high-cost credit, rather than *choose* it. That said, Kempson and Atkinson's (2006) research found people's expressed attitudes, such as being a 'spender' rather than a 'saver', were reflected in a higher incidence of financial strain and experience of problem debt.

### **Attitudes to money management**

Most people felt that they actively managed their money. In response to questions relating to attitudes, the majority (18) of household participants felt they: used money carefully and did not manage their budget badly; always knew how much they had in their account (bank or post office); and knew how much money they had on them all times. Half (12) agreed or strongly agreed that they paid their bills promptly in order to avoid penalties or interest. This implies that they kept a tight rein on finances. A strong preference among all participants for using cash rather than cards may demonstrate an attachment, either through need (not having access to a debit or credit card), or preference, for working in a cash economy.

### **Normalisation of credit and debt**

There seemed to be an acceptance and normalisation of debt among participants with only three disagreeing with the statement that credit was part of today's lifestyle. Indeed, 19 out of 24 respondents defined themselves as 'more of a spender than a saver'. Nevertheless, the majority of participants (23) agreed that 'people run up too much debt' and that 'being in debt is never a good

thing' - possibly reflecting their own circumstances. Again, perhaps unsurprisingly, given their experience of problem debt, only two participants agreed that 'taking out a loan was a good thing because it allows you to enjoy life' (20 disagreed and 11 of these strongly disagreed). There was a general reaction among participants that you pay for it in the long run.

Perhaps more surprising was that only two participants agreed with the idea that it was good to have something and pay for it later (17 participants disagreed, four neither agreed nor disagreed) even though most participants did have current credit arrangements and therefore this directly contradicted their actual behaviour.

In general, therefore, people were not in favour of credit or running up debts, despite having credit and problem debts themselves. This may indicate either that participants would rather not have credit if they had a choice (i.e. they would prefer a higher income or savings) or that people's behaviour is not reflected in their expressed attitudes.

### **Concluding comments**

The households in the study were largely living on welfare benefits and had a range of experiences of problematic debt, with significant use of sub-prime loans (such as rent-to-own, doorstep and catalogue loans). They generally had no savings, and very low awareness and use of low cost credit alternatives. People were using credit for everyday living, as well as to cope with crises, and many had got into a vicious cycle of debt. The majority had faced threats of legal action, and experienced stress and feelings of powerlessness in relation to their finances. Use of high cost credit was generally accepted and regarded as 'normal'.

## 5. Sources of credit used by households

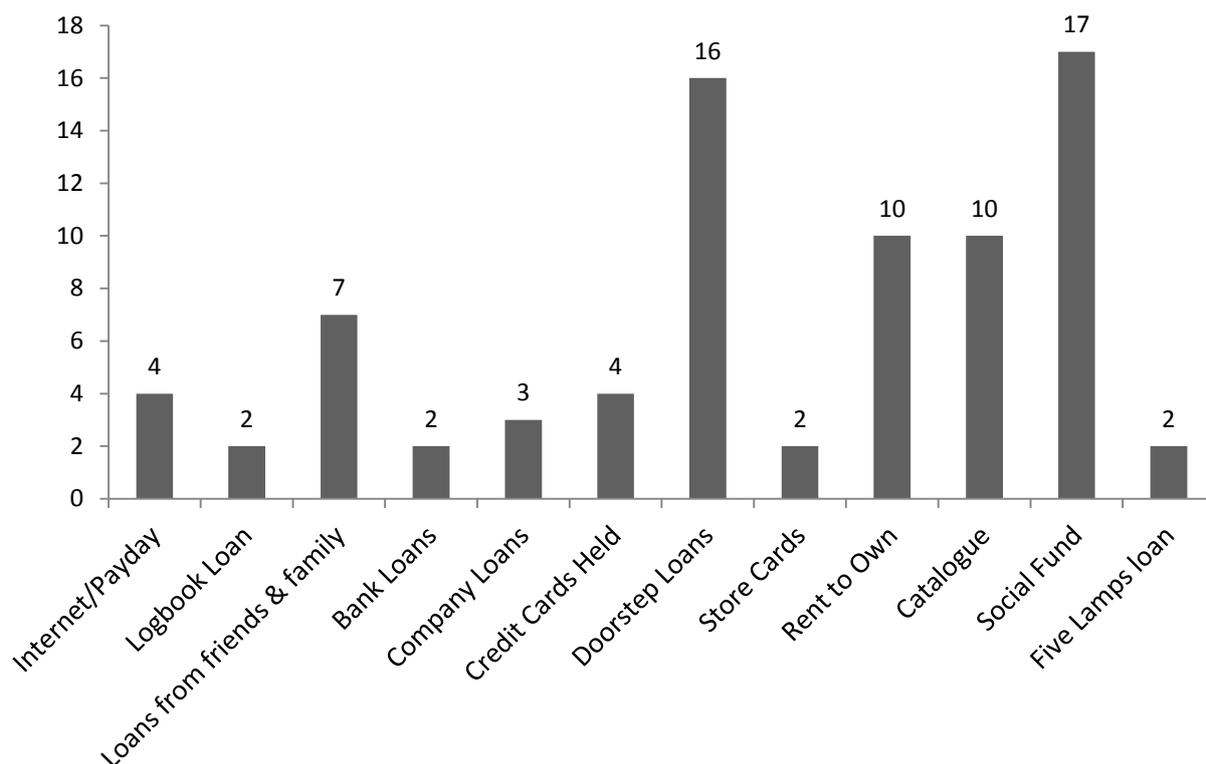
### Introduction

This chapter will look at credit sources used by participants and explore why participants used particular sources, based on data from the initial, mid-point and exit interviews and the December 2012 workshop with household participants. It will also look at pathways into debt. As noted previously, key services used by our low income participants were those in the sub-prime credit market, such as: doorstep lenders (home credit), catalogues and rent-to-own companies as well as 'informal' credit from the Social Fund and family.

### Overview of credit sources used by households

As Figure 5.1 shows, households had a number of credit sources and many utilized an assortment at any one point as a strategy for maximizing credit. Across a range of 12 credit sources, all participating households used at least two at the time of initial interview. Thirteen households used four or more sources, of which one household used nine sources. Within these credit sources, however, households often had a number of loans or arrangements - for example, three rent-to own purchases, four doorstep loans and a catalogue.

Figure 5.1: Credit sources used by households



Credit from mainstream sources (such as banks and credit cards) was used much less than other credit sources - reflecting a lack of access to, or reluctance to use, mainstream sources. Two households had a bank loan and four had credit card debts (although three of these households no longer held a credit card), whereas 16 households had doorstep loans (from Provident, Shopcheck and Naylor's among others). Doorstep loans were sometimes a one-off amount from one loan, although 11 of the 16

households that had doorstep loans had more than one loan. One household reported having twenty-five doorstep loans from seven different companies (not all of which were being repaid).

Amounts of doorstep loans ranged from less than £50 to 'well over £1,000'. Eight were for less than £500 in total, six were for £500 to £1,000 and one participant did not know the amount owed. Ten households had payments with catalogues and ten with rent-to-own companies. The rent-to-own stores BrightHouse and PerfectHome were used by all ten participants. The Social Fund was a resource used by more than two thirds of participants: 17 households had a current loan with the Social Fund and all except one household had borrowed from the Social Fund at some point. However, the Social Fund was not seen as a 'debt' by participants, in part because there is no interest and repayments are taken directly from benefits.

More detail will now be given of the main sources of credit and how they are used.

### **Doorstep lenders**

Doorstep loans (home credit) are delivered through agents operating, and often living, in local neighbourhoods, offering vouchers or cash. A typical APR might be 399.7 per cent.<sup>9</sup> Participants were aware that these were high cost (although no households knew the interest rates). Confirming the findings of previous research (Jones, 2010), many participants liked the convenience and quick availability of cash with this type of loan. Another valued feature was that a weekly payment could be missed without financial penalty, seen as helpful by participants, who often experienced a fluctuating income. By contrast, the late weekly payment fee on a BrightHouse rent-to-own agreement at the time of the research was £4.50 per item.

Many participants had come to know their agent through family, friends or neighbours, which seemed to give them confidence that the agent could be trusted. Others borrowed with an agent via relatives (often parents) or friends:

... I know the main bloke that comes round for the money, [name], and I know some of his customers ... it was one of his customers that I knew. I was skint at the time. (Household 1, initial interview)

I got on about eight [loans with doorstep lender], with my Dad and four or five, about 24 on. I can't think how much, more than £5,000. (Household 14, initial interview)

The Naylor's woman is my friend and she's fair. I've been with her over a year now, my friend was with them and that's how I got on with them. (Household 17, initial interview)

She knows not to let me go over what I'm paying now and not to go over a certain amount when she does give me a loan. So she knows if I ask for more than £150 to say 'no'. (Household 14, initial interview)

I'd been on with them [doorstep lenders] for years. Another couple of months I'd have been on with them for about six years. Till my benefits started going funny and I couldn't pay them. (Household 12, initial interview)

Social isolation sometimes meant the weekly contact with the agent was viewed as valuable in itself:

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<sup>9</sup> [www.providentpersonalcredit.com/home-credit/apr/](http://www.providentpersonalcredit.com/home-credit/apr/). APR is dependent on amount borrowed and the length of repayment period.

I've got Provi [Provident] loans – I don't mind them 'cos they're only a tenner a week and they come to the door and it's somebody different I can have a chat with. (Household 10, exit interview)

However, the personal relationship with the agent can be exploitative, and there was evidence of people who were vulnerable being offered loans:

They come round when I'm down and say to me: 'Here's some money, do you want £50 in vouchers or do you want £100 to take you out today?' (Household 2, initial interview)

As with Household 17, some participants were grateful that the agents would arrange payments for them. Another lone parent said that her agent sorted things out for her and knew not to lend her more than a £30 a week repayment even if she asked for more. One participant's agent was a friend of her father. Another participant (see Appendix 2, Household 12), who had organised reduced repayments, continued to pay her doorstep lender £10 a week even though the payment should have been £1. This was because she would be embarrassed to pay him a £1 per week as she had 'known him years'. This demonstrates a sense of emotional as well as financial indebtedness towards the agents, in some cases tying customers into a cycle of on-going loans. Indeed, once they had got a loan, many participants often found themselves in this cycle. Loans were usually offered by the agent without being asked for by the participants:

Twice a year for years [I got a loan with Provident] - it's great because you got this lump sum of money, so I'd always have one. (Household 5, exit interview)

Participants in the focus groups said that they used doorstep loans because they knew they could not get a loan from a bank (because of factors such as poor credit record and unemployment). It was clear that the weekly payment was the key concern, rather than looking at the overall cost of the loan.

### **Box 5.1: Perspectives on doorstep loans**

#### ***Reasons for use***

- Convenience and quick availability of cash
- A weekly payment can be missed without penalty
- Agents are often trusted and regarded as friends
- Loans are often offered without being requested
- Weekly payments seem manageable (overall cost of loan is less important)

#### ***Disadvantages***

- Tied into a cycle of loans
- Vulnerable people exploited
- High cost

## Social Fund loans

One low cost source of credit that was heavily used by participants was Social Fund loans (crisis or budgeting loans)<sup>10</sup>. At the time when the research was conducted, crisis loans were offered for help with an emergency or disaster and budgeting loans were available to help with costs such as furniture, removal expenses for a new home or starting a job. However, qualification for loans was based on circumstances and ability to repay and the limit on any payments was £1,500. The Social Fund was viewed as a crucial source for purchasing essential items. Usually the amount received was less than that asked for, so participants would put in for a higher amount. If they received this, they could buy the necessary items, such as children's beds, and use extra money to spend on other things, usually everyday items (in one case a child's birthday present). Although this could be viewed as 'abuse' of the system, it was a strategy to avoid unmanageable debts.

Since deductions were taken directly from benefits to repay Social Fund loans, participants did not keep a track of how much they owed, or for how long this would be deducted from benefits. Social Fund loans were popular, and reported by four participants as their first place to go if they needed to borrow money. As one person commented:

I've always got loans off the Social [Fund] because that comes out [of] my income support, so I know I'm safe. (Household 8, midpoint interview)

However, repayments reduced the weekly income, and one household had taken out a doorstep loan to cover the loss of income due to Social Fund repayments.

### Box 5.2: Perspectives on Social Fund loans

#### *Reasons for use*

- Low cost
- Could be used flexibly
- Repayments taken directly from benefits

#### *Disadvantages*

- Hard to kept track of benefit deductions

## Rent-to-own stores

Although a number of participants bought second hand goods (including Christmas presents), some goods were viewed as needing to be new, such as a laptop for a child starting secondary school. Without access to a lump sum of money, such as savings, new goods were acquired via weekly payments and rent-to-own stores were one of the few options available:

The washer broke and I had no money to buy a new one, so we had to get one out of BrightHouse and that TV over there as well. (Household 8, initial interview)

I can afford to pay it weekly. It's the only way I can do it. (Household 9, initial interview)

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<sup>10</sup> These loans are generally no longer on offer from April 2013, when responsibility for the Social Fund switched to local authorities, most of which have introduced voucher or goods systems rather than cash.

He [mentor] doesn't like PerfectHome, doesn't like BrightHouse, things like that. But I sat down and I think, 'but hang on you're not in our shoes, just 'cos you've got a job, your partner's got a job, you've both got money coming in' ... I needed a cooker. (Household 10, exit interview)

Three participating households said that a rent-to-own store would be their first choice for obtaining goods. The advantages given were: not being judged, not having a credit check and being able to have new goods that you would not otherwise be able to afford. However, complaints about the quality of the goods, service (when goods were faulty) and penalties were mentioned by more than half of those with credit agreements from rent-to-own stores. As one person commented:

I got Buy As You View [loans from a rent-to-own company] and they stung me really badly. It was my ex-husband that took them out. I got a Playstation 3 back in 2008, November 2008. We only finished paying it off August of last year [2011]. (Household 3, midpoint interview)

Generally people were aware of the much higher cost of purchasing goods weekly and many stated that they would buy goods outright if they could afford to, demonstrating that the credit 'choices' they made were made in restricted circumstances. People were using credit sources not necessarily because they wanted to, but because they lacked alternatives, as this comment indicates:

I know you're paying a lot more [at PerfectHome]. You could probably get two wardrobes and a new double bed for that, with mattress, for about a thousand pounds. I know you're paying over the odds, but I don't have the money to go and buy it. If I had the money I'd go to Argos or B & Q or whatever and say I want that, I want that, I want that, and not worry about it. (Household 10, initial interview)

### **Box 5.3: Perspectives on rent-to-own stores**

#### ***Reasons for use***

- Being able to get new goods
- No credit checks
- Not being judged

#### ***Disadvantages***

- High cost
- Poor quality goods and service
- Penalties for late payments

Late fee charges (£4.50 per item at BrightHouse) could be a significant amount of money from the weekly budget. To avoid these charges, repayments to rent-to-own stores were prioritised over other household bills by some participants. For example, gas or rent would be forfeited in order to pay BrightHouse or PerfectHome:

£9 every time you miss a bloody payment! Ridiculous, f\*\*\*\*\* ridiculous. When I get paid, on a Tuesday, the first thing I do is go into BrightHouse and pay, that's the first thing. (Household 23, initial interview)

We're still paying it now [PerfectHome]. But it's like, we have to go easy on the gas and the electric and stuff because if we don't pay it they come and take the stuff, and we need the children's beds so [we have] got no choice but to pay it. (Household 21, initial interview)

## Catalogues

As with rent-to-own stores, catalogue goods were often more highly priced than similar goods on the high street. However, weekly payments and the convenience of having goods delivered, especially for participants with no access to private transport, were central reasons why catalogues were used by many households (10). Catalogues were largely to buy clothes although one household also purchased household goods, including a tumble dryer and a TV, through their catalogue and another participant purchased a trampoline for the children. Although some participants could get interest free credit on some catalogue purchases, many found themselves with credit limits that were beyond their income. Hence these purchases turned into problematic debts that they could not pay:

I been on with them [catalogue] for eight year. I was a good payer, used to pay my debts all the time. I got to pay back £1,000 ... It's for my son, he got clothes, I never got nowt. (Household 12, initial interview)

We had catalogues on and obviously we couldn't pay them [after being made redundant] so we're in debt to the catalogue ... mainly the catalogues. (Household 21, initial interview)

Clothes for the kids, it's the first time I used it. You start getting more and more and it gets harder and harder ... They've just sent a letter for the payment and I have to make a payment in 14 days or they'll take it to court. (Household 16, initial interview)

Well they've put a load of interest on it now, a lot more. It started at £80 and I paid £30 off and now I think it's up to £190 something ... (Household 11, initial interview)

I've got lots of catalogue debts. I think I've even managed to get some in my middle name and my maiden name 'cos I got told that wasn't against the law ... The one I've just sorted out comes up to about £300, but once the rest catch up with me I know I've got nearly a £1,000 on each. (Household 17, initial interview)

One participant, on being asked why she liked to use catalogues replied:

We *don't* like to use catalogues, that's the whole point. It was a necessity, we had no choice. (Household 3, initial interview)

## 'The bank of Mum and Dad' - family lending

Borrowing from family was rarely seen as a 'loan' and borrowing within families was a frequent occurrence—just under a third (7 of 24) of participating households had loans from family/friends at the time of the initial interview. Family was given as the first choice of where to go when needing to borrow money by nearly half (10) of the participants.

[We] borrow off them, like £30 quid here and there. You get in a circle, pay it back and then borrow again. Like last fortnight when our money didn't go in, my Mum and Dad had to pay the rent so we didn't get evicted. And then we have to pay them back, twenty there, twenty there. (Household 13, initial interview)

The amount of financial and material help from family was actually often much higher than that directly asked for by participants - for example, grandparents buying milk and nappies on a regular basis or giving money on an ad hoc basis, which was not expected to be repaid. The reasons people borrowed from family were that there was no extra to pay back and, sometimes, there was no expectation that the money borrowed would have to be repaid:

I go to Mum, she's always there if I need and she doesn't ask for it back! Hee! (Household 9, initial interview)

I'd go to family first, don't pay it back at all, I'd go to the family before I'd ask anybody anything. (Household 23, initial interview)

Half the time my Nana will just give it to me anyway. She'll say don't pay it back half the time. One time I did pay it back, £4, then the £6 she lent me. She didn't even – so told me not to pay it back. (Household 15, midpoint interview)

However, for some participants borrowing from their families was not an option, as they were in the same position and not able to lend:

[My] family didn't have anything to be able to help, so I ended up with Shopacheck. (Household 4, initial interview)

It's difficult because my mum doesn't have it [money] as well and that's the only person I would go and ask. (Household 18, initial interview)

While inter-family lending often met the needs of families, in terms of borrowing small amounts for a short time, lending to other family members could further deplete precious resources:

But my Mum owes me like £230 quid anyway, which I borrowed [lent] her for a bond on a house and ... I had to borrow [lend] her £50, 'cos her boyfriend's a bugger. He lives with her, but he never coughs up [...] and the landlord said: 'If I don't get that rent today then you're out.' So I had to borrow [lend] her the last fifty quid she needed for it. (Household 8, midpoint interview)

Some participants borrowed from family members who were seen as better off than them, often because they were in paid work or because their situation meant they had less commitments, for example having no children. However, family and friends not only provided a source of interest-free credit, but also a way of accessing financial products that were unobtainable to the participants

Well, she's [sister] got more than me 'cos she works. She's the bank, put it that way. I borrow off her, or if I need 'owt she'll put it on the credit card, like she did at Christmas for me, and I'll just pay her it back. But ...it's better than getting more and more into debt. (Household 16, initial interview)

I pay money to my Mum through her catalogue [to get children's clothes]. (Household 17, initial interview)

My friend has got a catalogue and I buy things like clothes on her account and pay her back. I don't think I would get a catalogue on my credit history. (Household 4, initial interview)

## **Payday loans**

Payday loans were used by four households at the start of the project, only one of which was in employment. Although apparently designed for very short term use (one to 30 days) the households in the project rolled over their loans or had a number of loans, the interest of which became quickly unsustainable:

You get money within the hour. We tried Wonga and I got accepted and we paid them off. Previously they helped us out, fifty quid. We paid it back, which was £87.50 - which at the time we didn't miss because it worked out when I paid it. We paid all the bills and I thought 'right we've got no worries' and because you've paid it off you go there again. (Household 10, initial interview)

I had Wonga, it was an absolute nightmare. (Household 4, initial interview)

The participant from Household 4 had borrowed £800 and was supposed to be repaying £79 per week, even though she took it out over a year ago and had already paid more than £1,200. She had got the weekly repayments reduced, but described herself as 'scrimping and saving' to pay it back. Each of the participants with payday loans found that they had got into difficulties quickly.

## **Cashconvertors**

Cashconvertors (a modern-day pawn shop) did not come up in the initial interviews. However, it was found to be a credit option used quite heavily by two male participants. It was viewed by them as a more manageable way of getting cash quickly with less chance of getting into debt (if the repayment was not made, the item was kept by the store).

If I'm short of money, I'll go to like the pawn broker shop and I'll trade them [games] in there and you have to pay them back. Well I got forty quid a few weeks ago for some and I gotta pay back fifty one pound. So I gotta pay back eleven quid, which is due in like four days, which I won't have. But if I go in and say, 'can I have another four weeks on this?' it might work out more, but I get another £20 and it doesn't work out that bad ... And I keep doing that, keep selling stuff and buy it back. (Household 19, midpoint interview)

However one of the participants clearly did not see this as 'credit', in the way that he saw getting a doorstep loan, as this exchange shows:

*Participant:* Sometimes, sometimes I think: 'Oh well I need some money and I need this and that and the other and if I just get it on credit it'll be alright'. But then I just think: 'No, I'll go sell my phone'.

*Interviewer:* That's what you do? You use cash converters?

*Participant:* Yeah – I've sold it about four times now. (Household 15, midpoint interview)

## **Reflecting on reasons for use of high cost credit**

As indicated in the earlier discussion, there are many reasons why the households in the study became indebted and took on credit from particular sources.

### **Lack of awareness of interest rates**

Although people kept a tight rein on their budgets, reviewing their finances weekly or even daily in some cases, this involved managing the cash they had or were expecting to have. It did not take account of factors perceived as outside their immediate control or spending. For example, although participants knew their weekly repayments, most participants were unaware of the interest rates on their credit commitments.

- 13 out of 16 participants did not know the interest rate on their doorstep loans
- Eight out of 10 did not know the interest on their rent-to-own purchases
- No participants with payday loans or logbook loans knew the interest rate of the loans
- None knew about interest on catalogues (some are interest free).

A lack of familiarity with interest rates was largely because this was unimportant to participants. They focussed on the weekly payment. However, this meant that participants were probably not comparing interest rates and therefore not getting the best deals. It is also the case that despite an apparent commitment by some companies, such as in the rent-to-own market (Gibbons, 2012) to make their pricing including additional costs with interests clear, some companies, such as BrightHouse, are not doing this. Customers are aware of the high costs, but may believe there are few alternatives or be prepared to pay the high cost for the convenience (such as home collection) of payments.

### **Limited choices**

Despite having a limited framework of credit opportunities, financial choices were made by participants, who generally opted to borrow money or purchase goods rather than go without. However, care should be taken with the use of the term 'choice' in relation to spending decisions, as a limited income leads to limited options. What appears to be a 'choice' may actually be a result of straitened circumstances. It could be argued that the 'choice' of going without may well be the better one, given the alternative of high cost credit and consequent long-term debts. Indeed some participants did go without, but often this entailed cutting back on essentials to pay debts rather than foregoing accessing credit in the first place.

### **Normalisation of debt and familiarity of lenders**

Although the reasons that people took on credit are multiple, one explanation is the normalisation of debt by participants. Previous research on debt has shown that people are more likely to take on debt when they know others around them are also in debt (Livingstone and Lunt, 1992). The financial choices people made were linked to the familiar. People knew their way around particular credit sources, such as the Social Fund, because many people they knew had experience of using them. Doorstep lending was also a known quantity; many participants had other family members and neighbours using the same agent. BrightHouse's own analysis reveals that their customers have friends or family who are also customers.<sup>11</sup> In this way there was a 'comfort zone of lending', in which particular credit sources and ways of maximising income were familiar, normalised, and therefore unthreatening.

### **Lack of familiarity with low cost alternatives**

Although there are six credit unions in Middlesbrough and one in Stockton, these were not used by participants. Two participants did have loans with Five Lamps (a community development finance

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<sup>11</sup> [www.brighthousegroup.co.uk/ourbusiness/market.html](http://www.brighthousegroup.co.uk/ourbusiness/market.html)

institution that offers loans for individuals on a low income at an APR from 49.9 per cent<sup>12</sup>). The lack of use of low cost community-based loans was not only due to the familiarity of doorstep lending or the persuasive marketing of rent-to-own stores, but also in part because participants were unfamiliar with the alternatives, such as credit unions. Furthermore, current third sector credit options do not suit the needs of many low income households. For example, to access loans from Five Lamps borrowers need a bank account and a credit check, insurmountable barriers to some households in the *Debt on Teesside* project. Again, with credit unions, savings have to be accrued for 13 consecutive weeks before a loan (up to twice that of savings) can be considered. For households who find saving difficult because income is unpredictable and who often need money quickly, such an arrangement is unfeasible. Awareness of credit unions was low and not on participants' credit horizons.

The workshop held in June 2012 with five household participants looked at credit unions. This revealed a lack of knowledge about the purpose and functioning of credit unions:

- Two people did not know what a credit unions was
- One person thought it was something that 'helped you with money'
- One person thought it was an investment scheme
- One person thought it was a saving scheme in which you saved and then you could borrow money.

No one knew where the collection points were located or their functions. During the project, other participants who took part in the mentoring scheme said they did not trust credit unions. One person said that people had lost money in one near her, even though credit union members' money is protected in law. Ultimately though, credit unions did not offer what participants felt they needed, which was a requested sum of money available immediately. The essential criterion of having to save in order to borrow was problematic for our participants, who could obtain instant credit within the sub-prime market.

### **Mainstream banking not geared to low income customers**

Only two participants had a bank loan and a minority were current customers of, or had used, mainstream banking facilities. Many participants had experienced difficulties with banks, including not being able to get a bank account. Even basic bank accounts, designed with the low income customer in mind, remained problematic for people with erratic income and no financial cushion of savings. They often paid a heavy price in bank charges for missed direct debit payments.

Many of our participants had experienced bank charges. This is not an unusual occurrence for poorer bank customers. Research undertaken by Millward Brown (2006) found that one third of basic bank account holders using direct debit had experienced at least one bounced payment. The majority were charged a fee. As participants in our study commented:

I did have one [a bank account]. I closed it ... I put the Sky in, and they were taking it [the payments] out too early, and my money wasn't in, and I was on the dole and got charged. So I shut it down, it kept overdrafting. (Household 9, initial interview)

They took it out my bank without even asking, even though I'd cancelled the direct debit. So them taking that £150 that we didn't have in the bank account forced us to go into overdraft

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<sup>12</sup> A fee of 5% applies to all loans (minimum of £10 and maximum of £25). Five Lamps also offers debt advice

and we couldn't afford to pay it back in one go, and the bank was whacking on more charges, see that was the problem. (Household 21, initial interview)

I've had some run-ins with them [bank], them taking money they shouldn't have took. (Household 16, initial interview)

Bank charges for missed payments caused stress and hardship: 'they just crumble us' as one participant stated. Another household had incurred a significant debt following unemployment arising from overdraft charges when a payment to a company made him overdrawn. Many months later the family was still paying £50 a month in overdraft payments. Another household used their overdraft facility as part of their financial strategy for getting by:

*Participant:* [We've] got one, which we call the 'chip and pin', which I have an overdraft on. It's in the red all the time.

*Partner:* That's how we survive. (Household 3, initial interview)

Households were comfortable with dealing in a cash economy and there was a fear that changing to a bank account would take away personal control and raise the possibility of debts accrued due to inability to pay direct debit payments or of becoming overdrawn. Participants were suspicious of being caught out by bank charges and other hidden practices:

There's always a little catch in it when you try and get out of insurance with bank. They say you've only got this overdraft 'cos you've got this. (Household 4, initial interview)

When questioned about confidence in banks, most participants said they were confident. However, many participants used banks as a place to which to deliver money, immediately withdrawing the money when it was deposited. Despite reporting general confidence, some participants also reported feeling looked down upon by bank staff or getting 'snotty letters' from their bank:

I won't even approach them for anything, they look down on you. ... I think it's because I've been to banks before and when they see you get benefits ... and I can't work because of my situation. (Household 14, initial interview)

Another participant commented that the jargon is off-putting and 'they use words that put you off balance' (Household 7).

#### **Box 5.4: Perceived problems with mainstream banking**

- Participants unable to get a bank account
- Problems with direct debits and going overdrawn
- Fear and reality of bank charges
- Fear of change – cash to electronic
- Lack of control and flexibility
- Lack of confidence
- Feeling excluded – low self-esteem/attitude of banking staff/ use of jargon

Although some research has found that barriers to becoming banked were largely in attitudes and perceptions rather than based on circumstances (GfK NOP Social Research, 2010:5), our study shows that people had direct experience of banking problems, which had led them to unbank themselves. It seems that banks did not offer low income customers the safe, yet flexible, service they required.

### **Concluding comments**

Participants used a range of credit sources, the most popular being the Social Fund, doorstep, rent-to-own and catalogues. Many used multiple sources of credit, with sub-prime loans valued for ease of access. Mainstream banking was not regarded as meeting the needs of the households in our study, and many participants were unfamiliar with low cost community-based alternatives.

## 6. Poverty and indebtedness: themes of the research

### Introduction

This chapter explores some of the key themes that emerged from the qualitative data collected from interviews and discussions in focus groups and workshops. These relate to the struggle to manage money in the face of challenging life circumstances and an all-pervasive consumer culture.

### Managing on a tight budget: 'juggling'

One way participants avoided adding to their debts, whilst also getting by, was to manage their budgets strategically, including not paying certain bills. The juggling of payments and incurring of arrears on household bills, including rent, were often viewed as an active way of managing a limited budget:

The reason why we got behind on the council tax is that we were too concentrating on the rent. We skint ourselves one month to pay the rent arrears off, which got us behind on the council tax. So that's the reason we are one month behind with the council tax. We know obviously [if] you don't pay the council tax, you go to court, to prison for - we know that. But it was more important to have a roof over our heads. So we'll pay the rent arrears and next month we'll pay the council tax. So we did plan it, plan it. (Household 10, initial interview)

By the time I'd finished with Greenwoods it was a hundred odd pound a fortnight payment. So by the time I got the gas and electric and it [the water rates] didn't get paid. (Household 12, initial interview)

Although deferring household bills in this way allowed participants to organise their limited finances strategically, it was a risky strategy. As noted, eight of the 24 participating households had current rent arrears and three had council tax arrears, priority debts that risked them losing their homes. Nearly all households owed money for water rates, viewed as a low priority bill because of the widespread awareness that water would not be cut off. One participant had never paid water rates and another had not paid for several years. However although going unpaid, the water rate payments still accumulated, leading to a 'skeleton' debt (a debt waiting in the cupboard). Managing a limited income in order to pay essentials and debt repayments, however, had a psychological toll and participants could become overwhelmed:

It's just when I pay off other debts, I can't seem to get one aside. I often miss one or something like that to pay the electric. So it's just basically I have to miss one out to pay another one, and then next time I have to miss another one out to pay another one, because I can't pay them all off. (Household 18, initial interview)

As expected, there was diversity across households in approaches to money management. However, one feature common to all but two of the single person households, was that income was 'taken for' before it came in and would be immediately spent on fuel, rent and debt repayments. For many households, spending on food came after these essentials and would be adjusted depending on outgoings in a particular week. Cyclical spending patterns were more pronounced in lone parent households. For example, tax credit payments would mean more income one week, with weeks referred to as 'good' and 'bad'. So people managed spending in two weekly cycles based on benefits and tax credits coming in, with 'extras' such as children's shoes being bought in the 'good' week. The structure of money management was tied into the pattern of income and with most households this

was short term. This micro-managing of the household budget has the obvious advantage of enabling people to allot income to expenditure on an on-going basis. However, in effect, it is a survival strategy and does not allow, or anticipate, future expenses.

### **Struggling to get by**

Unsurprisingly, a key theme to emerge was the extent to which people were struggling with meeting everyday needs. Debt was merely one aspect of this:

I'm struggling to pay my gas and electric and get the food shopping and I'm literally left with nothing again. (Household 11, initial interview)

Well I have my son's bus fares every week, five pound a day before I start college, to go, [plus] gas, electric, food ... finding it hard, I think everybody is. (Household 12, initial interview)

I sleep here and K sleeps there [on sofa]. We have to live day by day, know what I mean, [we] have pot noodles you know [...] I try and work out how many days [the money will last] and I can only spend two pound today. (Household 13, initial interview)

There's always something. I mean our gas and electric, I have payment cards and every Wednesday I pay £20 on the gas and £20 on the electric. Every week ... all I seem to do is pay every Wednesday [when] I get my money. It's gas, electric, water rate, TV licence, every week without fail. (Household 3, initial interview)

People's lives were focused on the immediate basics of electricity, gas and rent. The constant feeling of struggling to get by also meant that people were vulnerable to temptation when a doorstep lender came knocking with instant cash or vouchers.

Many of our participants had been managing on a very low income for a long time and this seemed to impact on some of their expectations. For example, one participant said she would like to treat herself. However, when further questioned by her mentor she actually meant more money for essentials, such as clothes. When some extra money appeared, be it from wages, benefits or credit, spending it allowed a temporary respite from struggling and the mundanity of everyday poverty. One participant (Household 10, exit interview) talked of getting her 'Provi' [Provident] loan and 'having a good shop. It felt good, filling up the cupboards and the fridge'. People felt guilty or that they were making the 'wrong' choices when they occasionally spent money on something that was not 'necessary':

We are sort of struggling, but ... some weeks we'll have a little bit of money left over and then we'll think: 'Right' and we'll be stupid and get a take-away. (Household 7, initial interview)

Households in the study were facing a range of adversities in addition to poverty and debt. Spending was generally micro-managed and planned. It was rarely spontaneous and if it was, participants saw themselves as being 'bad'. Getting some new clothes for the children, or paying the Sky TV bill rather than all the rent, may be valid choices within the context of that household at a particular moment in time. As one participant (Household 10, exit interview) said: 'Sky is my night out. I don't drink, I don't smoke, that's my night out.'

### **Feeling out of control**

It seemed that many participants did not feel in control of their income. For some participants there appeared to be a passive relationship to the receipt of benefits, with payments and deductions

appearing to be random. This stance often led to a reactive relationship with managing money (dealing with things when they happened) rather than a proactive one. This feeling of not being in control also occurred in dealings with banks, in making payments, incurring late fee charges and the raising of credit limits by loan companies.

Don't know how much I need to pay back to social [Social Fund]. They take £9.30 a week from benefits. (Household 20, initial interview)

One week ... when I go to the bank, I'll have like £140 in. Oh yeah, [I'm] buzzing! They haven't took much off. And then another week I'll go and I'll have 89 pound. It's like a week! It just depends what they feel like on the day I suppose. (Household 15, initial interview)

They just stopped my money one day and that Thursday till the following Thursday I had to go without, just £47 and it got worse from there kind of thing. (Household 16, initial interview)

The child tax had got stopped for some reason. (Household 21, initial interview)

A low and potentially irregular income, or the perception that one has no control over income, means organising a budget is even more difficult. However, although many participants exhibited a reactive approach to the state of their finances, this did not mean they did not think about money matters. Although seemingly contradictory, many lived with an almost constant a fear of their finances being out of control and were in a state of permanent vigilance. One household had a very organised approach, with a yearly planner detailing income and expenditure, but said they had found themselves recently in debt when they had taken their 'eye off the ball'. One strategy participants used to avoid financial shocks, such as large bills, was to take steps to limit the chances of this happening. An example of this was the apparent popularity of pre-payment meters, so people would not get surprised by a big bill, even though this is a more costly way of paying for fuel. Participants described it as 'one less worry'.

### **'Poor' credit enables participation in consumer society**

We live in a consumer society, which places great value on the accrual of goods and status for self-worth. A restricted budget means that decisions are largely made on a needs basis rather than consumer desire. Therefore being 'poor' means being excluded from many of the all-pervasive consumer dreams. One way in which people in this study were able to include themselves socially was by buying into mainstream society via credit. Consumer goods are systems of signification and it was here that people rejected a position of both 'poverty' and exclusion. This seemed essential for individuals' self-esteem as well as how others perceived them.

From the workshop for participating households held in June 2012, bullying of children by their peers emerged as a reason why some parents felt they had to get certain items for their children (although not all participants agreed, with one arguing that if you have not got the money you should just say 'no' to your children). One example was a parent who was very worried that if she had not bought a Blackberry [smartphone] for her daughter, she would have been bullied by children and other parents. This parent said it was crippling to find the money, but it was important that her children fitted in. She felt that if her children had a cheap phone they would be subject to bullying by their peers. In a general discussion, parents said that children of 10 or 11 years old had expensive mobile phones. Media pressure was also blamed as playing a part in children's demands. As Smith (2005:126) remarks, consumer capitalism imbues children with increasingly materialistic attitudes in which, 'participation in fads and fashions becomes a crucial marker of inclusion in to peer groups'. As in Smith's research with

people on low income on a south London estate, participants in our study also perceived themselves to be under pressure to buy 'expected' items and felt a sense of guilt if they could not deliver their children's requests:

... Christmas is just atrocious. I mean the eldest one - laptops and phones, Blackberry phones, it's just ridiculous isn't it? (Household 14, initial interview)

This is also exemplified in the following exchange between a participant and the interviewer:

*Participant:* I don't like borrowing money and that, but it's Christmas isn't it?

*Interviewer:* What would you feel if you didn't?

*Participant:* Mmm, 'cos ... I know, I know I wouldn't have everything I want for him [her son]. It's like he's obsessed with this hot wheels like and the transformers and every time he goes to the catalogue he's set his little heart on all these things, like thirty odd quid for one thing'. (Household 8, midpoint interview)

Kochuyt (2004) identifies how such 'artificial affluence' is created for children within a low income family, often leading to impoverishment particularly for women in the family. Discourses around making spending decisions are not just economic, they are also emotional and moral. Participants saw themselves as 'good parents', especially mothers, and wanted others to see them as such. One way of being a good parent was providing for their children in line with the expected norms. It was not just a case of children's demands, but how this made the parents feel. This could be seen in the question put forward by one workshop participant: 'why should your kids suffer just because you haven't got enough money?' Parents wanted to protect their children from poverty and part of doing this included buying their children items viewed as 'necessary' in modern Britain. In this context, spending is a significant act, which communicates the extent to which children are valued. As Gillies (2007: 129) notes:

[A]cquiring a high status or much desired item for a child can convey a range of symbolic meanings, heightened by the scarcity of the financial resources required to buy it.

### **Too much credit on offer?**

Participants in the study felt they were inundated with offers of credit they had not asked for and did not want - not only directly from doorstep lenders, but also offers by phone and social media. This ready availability of credit was blamed by workshop participants for getting people into debt. One participant said she had three people a week offering loans. It was felt that loan companies and loan consolidation companies preyed on people. Persistent unsolicited offers of high cost credit has also been found in other research with low income families (Dearden et al., 2010; Mathers and Sharma, 2011). Offering unsolicited credit, however, is not restricted to the subprime market, as one respondent commented to her partner:

We went to the bank, do you remember, and you were updating your details and the guy at the bank said: 'You've got a really good credit rating' or something, 'If you upgrade your account or take out a credit card it'll boost your credit rating even more'. X [partner] said 'I don't want one' and the guy said 'but it looks good', so X said 'fine'. So we got the credit card - it came in the post and X was like 'we don't want it'. So we took it to my mum's and said to her 'keep this'. (Household 3, midpoint interview)

It was not necessarily the case that people were pressurised into getting credit, rather that subprime credit was very accessible. As one participant stated: 'people just offer you it. You're gonna take it aren't you?' (Household 22, initial interview). Another participant said that she was not pressurised, but her words indicate that pressure does not have to be overt:

They [Naylor's] don't pressure you, it's just available. One of my loans is nearly finished. I pay £35 a week - £30 for the two loans of £15 each and £5 for my sweets [Christmas hamper]. I do tell myself I'm not gonna take another loan, but then I'm worried she won't bring my sweets. (Household 17, initial interview)

### **Lack of savings**

The research clearly indicates that the issue of savings needs addressing if people on low incomes are to move away from sources of high cost credit. Participants in the *Debt on Teesside* project have habitually structured money management, including borrowing and spending, around *not* having savings.

Therefore to introduce savings would be a major change in managing the whole budget rather than just an addition to a routine. As Dolphin (2012: 20) notes, it is important to maintain a distinction between people's perceptions of whether they can afford to save and the reality of whether they can. Although acknowledging the difficulties of trying to save on a very low income, one method is to put money aside when it comes into the household rather than seeing if money is 'left over' at the end of the week.

From what participants said, there is a gap between intention and the ability to save. A potential problem with moving away from high cost credit sources and generating savings, is that this is based upon a future uncertain reward rather than an instant and positive change in circumstances, whereas the behaviour of the participants in the project was more focused on short term goals. Based on participants' previous experiences, this may be a rational response, as money from previous attempts to save had often been used for unexpected expenses before a savings goal could be reached. That said, some people did start to save over the course of the project. Five households joined the credit union via the incentivised savings scheme, whereas before the project, no one had declared savings. However, people did tend to save for specific events, such as a child's birthday, rather than to build up a financial cushion. In addition, most people expressed the desire to save and therefore options to enable savings need to be encouraged and developed, potentially through the local credit unions in the area. Due to the nature of people's circumstances, savings outside of the home would be more likely to be successful as they are not immediately available.

### **Self social inclusion**

One workshop participant theorised that people were trying to get away from the poverty they had grown up with and that credit enabled them to do this:

When we were growing up, obviously we didn't have technology and the gadgets, we didn't have the latest things. We lived very ... moderately. We didn't live lavishly as children, but now, because of what's available, now it's almost like they're trying to have something that they didn't have, you know. But now because they've got the means to live a better life, I don't know if it is a better life, but to have these things that weren't available to them as children. (June 2012, Workshop)

People in poverty often have very limited choices and credit can be a means of countering that poverty; by accessing loans and hire purchase goods they can assert some 'choice' and agency within a life in

which control is often restricted because of finances. Although the result might be a reduced weekly income and long-term debt, it offers an immediate feeling of control and not 'having to struggle'. Getting high cost credit (often the only viable credit) is not in people's long-term interest but makes sense in terms of their immediate and medium term goals and objectives, most of which are bound up with providing for children within a family or for themselves. Getting credit enables people to participate as 'typical' members of consumer society. However the control is illusory, because the debt is on-going and long term.

Recent research has shown that discourse regarding benefits claimants has changed since 2008, with British newspapers more likely to use a vocabulary that implies a 'lack of effort' and 'non-reciprocity' - taking but not giving anything back (Baumberg et al, 2012: 45). Providing for themselves and, more especially their children, is a way of negating the negative discourses that surround 'the poor'. Buying goods that are seen as 'must haves' for children, enhances their self-esteem. They can buy their way out of social exclusion via the material symbols of mainstream society. They can purchase respect. Buying themselves into mainstream consumer society in theory distances people from the label of poverty. However, the inaccessibility of mainstream (and interest free) credit sources means a reliance on high cost alternatives, which may impoverish households further.

### **Concluding comments**

The *Debt on Teesside* participants were facing multiple problems and constantly juggling bills and loan repayments on a poverty level income had a pervasive effect on their lives. The addition of ill health, worklessness and family issues meant that people often described themselves as 'struggling'. A lack of control in relation to income also emerged as a theme, which manifested itself for some in a rather fatalistic and reactive approach to dealing with income from benefits. The pervasive consumer culture and the pressure parents felt to live up to expected material standards in relation to their children, was a recurrent topic. Related to consumer culture was the idea that too much easy credit was available and this led people into debt. Although households criticised the demands of consumer society, with 'new things always being updated', access to credit meant they were not excluded from participation. It is argued here that access to credit enables low income consumers to exercise some agency within a life in which control is limited and in this way counters their status as 'poor' consumers.

## 7. Evaluating the mentoring scheme

### Introduction

This chapter focuses on the effectiveness of the mentoring scheme, including the perspectives of mentees and mentors.

### **The *Debt on Teesside* mentoring scheme**

The operation of the mentoring scheme was discussed in Chapter 3. The key research question relevant to mentoring was:

How effective is intensive, one-to-one mentoring by trained volunteers in changing the behaviour and attitudes towards managing money of people who have severe debt problems?

### **Delivering the mentoring scheme**

During the course of the project, 16 mentors were trained. Nine were community-based mentors, five were employees seconded from local agencies, one was a volunteer from a local agency and one was a Thrive project worker. Of these, 13 offered mentoring sessions to at least one mentee. Some mentors left the project due to personal or work pressures.

Each household that joined the project was allocated a mentor. During the period November 2011 to March 2013, 16 of the 24 households received at least one mentoring session. Despite arrangements to organise mentoring sessions, eight households did not engage with the mentoring scheme and either cancelled or missed their appointments. Eleven households had between one and five mentoring sessions, while five households had six to eleven sessions, as shown in Table 7.1.

The scheme was very time-consuming and challenging to deliver, as the comments from the mentors noted later in this chapter indicate. Whilst the project successfully delivered 64 mentoring sessions, a total of 72 booked sessions were cancelled or missed by mentees. This is indicative of the difficulties the households were facing in their daily lives and caused frustration for mentors and the Thrive staff, who were organising the scheme.

### **Following up households that dropped out**

In January and February 2013, the researcher contacted some of the households that were no longer receiving mentoring and had effectively dropped out of the scheme. One person said she had got what she needed from two sessions; two had entered paid work and no longer wanted to take part; two households experienced relationship breakdown and left the project; one had on-going mental health issues and did not feel well enough to continue. A further participant said she had too much going on and other problems had been prioritised, including being fined over her child's truancy, which had added a further strain to her life. We were also aware that, sadly, one participant had died. The remaining households could not be contacted, despite a number of attempts, and therefore it is unknown why they left the project. These responses suggest that for some participants there was little space in their lives left to sort out money matters. The scheme was going to require a lot of commitment and significant changes to established ways of thinking and behaving. For some households this commitment was too much.

**Table 7.1: Record of household mentoring sessions and cancellations**

Household no.	No. of mentor sessions	No. cancelled	Household no.	No. of mentor sessions	No. cancelled
1	0	1	13	2	5
2	0	0	14	6	7
3	8	4	15	6	0
4	1	1	16	4	2
5	1	1	17	1	3
6	0	0	18	0	4
7	3	2	19	11	5
8	3	1	20	0	4
9	0	2	21	2	4
10	3	1	22	1	2
11	0	1	23	0	0
12	4	1	24	8	21
Total sessions <b>64</b>		Total cancellations <b>72</b>			

### **The process of evaluating the mentoring scheme**

Mentors kept records of each mentoring session, noting any changes in financial and family circumstances, how the mentoring relationship was developing and any actions planned and taken. The researcher had also collected baseline data from the initial household interview/questionnaire, and undertook mid-term interviews with six households and final interviews with the six households that remained with the project in March 2013. Reflections on issues and difficulties were reported and discussed at regular mentor support meetings and mentors were asked to give feedback at the end of the scheme on changes in the households, reflections on their relationships with households, and their experiences of the process.

### **The mentees' perspectives**

The following section is based largely on the information gained by the researcher from the final interviews with six households. While the numbers are small, the accounts of what happened in these households indicate what it is possible to achieve through a mentoring relationship.

#### **Achievements reported by mentees**

**Greater understanding of how to manage their money** – All households that remained with the project commented that they now more felt more 'in control' of their finances/debts. Examples of how their ability to manage their finances had improved included:

I feel I am doing things 'properly' now. The sessions with my mentor have been very helpful, because it has given me the confidence to know I am doing the right thing ... He reassured me with some of the decisions I was making ... and I am now on top of things. (Household 5)

When I get my money each week, I basically budget it better. By the end of the week, I am still skint, but I can buy shopping now, decent shopping. I'll eat every week now so it's OK.  
(Household 14)

Several households commented that the practical support offered by the mentoring relationship enabled them to have a greater ability to manage their finances. Agreeing manageable debt repayments allowed for a little more disposable income:

My mentor helped me sort my money out [benefit deductions and outstanding fuel bill] and now I seem to have a bit more and can manage a bit better. (Household 15)

I've been able to reduce all my repayments down ... and I've got quite a few things paid off.  
(Household 14)

Before I came on this project, I owed quite a lot of money - three mobile phone contracts, a gym membership, Littlewoods and loads of other stuff. My mentor helped me cancel my gym membership and we worked out how to pay the other stuff ... I'm not rich now, but I do manage a bit better. (Household 19)

***Changes in attitudes and behaviour towards money management*** – Mentoring support provided an opportunity for participating households to reflect on their financial situation, to look at how they managed their money and think about the decisions they made. Positive outcomes were evidenced when households felt mentors had established good relationships with them and had been able to carry out a number of sessions that were focused upon working towards achieving agreed goals and providing a stimulating environment to have meaningful discussions. Of the households that continued to receive support by the end of the project, all commented on how their mentor had become supportive in making them 'think more' about money management, leading to changes in behaviour. Household 3 reported having conversations around fuel providers, life insurance and home contents insurance policies. The information gathered led to a change in providers and a reduction of costs. Whilst participating in the project the household decided to refinance an existing loan, which was never talked about during the mentoring sessions. The household's priority was to pay off their existing overdraft so that they were not always 'in the red' and 'had a bit more money to live off'. The repayments were affordable and now they felt 'less worried'. Household 3 commented that by actively taking part in the project they became more aware of how they were spending the household money:

We thought we were aware, but became more conscious of our spending patterns ... We realised that we weren't in as much control as we thought we were ... We were kind of plodding along.

***Improved overall self-confidence, ability to plan, make decisions, take control of money and other aspects of lives*** – At the exit interview with the six households, the original questions from the initial questionnaire on attitudes to money and well-being were repeated (See Appendix 1). All reported that they were not struggling and felt less anxiety. All but one scored more highly for happiness and gauging that the things they did in life were worthwhile. The same questions about attitudes were asked at the exit interview. Answers showed a reported change in how participants felt they managed money and budgeted in all but one case (this person had rated themselves highly (4) in terms of budgeting and managing in their initial response). There was an overall increase in people rating themselves as more likely to manage money very well, using money carefully and paying bills promptly. As this was not

objectively the case for each of the households, it possibly indicates increased confidence or that some people genuinely changed in their thinking, but that this wasn't reflected in their behaviour. It could also be the case that people were offering 'socially acceptable' answers, as they had been involved in a project which aimed to improve money matters.

Households said they valued the mentoring support because it improved their self-confidence, particularly in decision-making and money management. For example, one participant talked about how she felt:

Confident I am doing the right thing – I have life insurance in place, which is something I discussed with my mentor ... mentor gives me the reassurance I needed. (Household 5)

One participant (Household 24) said she had difficulty talking to her partner about her financial situation and throughout the duration of the project she raised numerous issues about her relationship difficulties. She felt her mentor was very 'supportive and understanding' allowing her 'the time to talk over some ideas of how to take action and resolve some issues'. During this period, she began accessing other help from a local support group, started 'talking things over' with her partner and returned back to work (she originally thought she would go on the sick after her maternity leave to 'look after' her partner, who suffers from anxiety and depression). Another participant (Household 16) had initially commented that she would not generally seek support or advice. Yet she took the initiative to ring her mentor for advice regarding several issues, including her son's homeless status and drafting a letter of appeal for her Employment and Support Allowance (ESA) claim.

#### **Case study 7.1: Household 24**

Diana was referred to the *Debt on Teesside* project via the Service Navigator. She was quite anxious about her mounting debt problems (credit and store cards of more than £11,000), had not opened any post for the past year and felt unable to talk to her partner about her financial situation.

During the initial assessment, Diana presented as lacking in confidence, was struggling to manage her finances and was unclear about how to resolve the situation. Her responses to the questions asked highlighted that she was: 'a spender and not a saver'; she 'never knew how much money she had in her purse/bank' and she thought 'taking out a loan was a good thing – as it allowed you to enjoy life'.

When asked about her experiences of being part of this project, Diana's responses were:

It has been an eye opener, it has made me sit down and actually think about how much debt I was in. I never opened a debt letter for over a year, I was too scared. My mentor helped me through this – this was a massive first step.

My mentor was someone who I could get things off my chest with. She was like a friend and I could talk about anything to her. I never could discuss money problems with my partner, I thought he wouldn't understand and would just get stressed, so my mentor was someone I could offload to. Having someone to talk things over with really helped. It is the first time I have ever thought about money and its value. I used to spend and just buy for the sake of buying. I don't do that anymore ...

in fact I am dead tight now. I won't buy anything unless I really need it. I never waste money like I used to.

Diana felt that her biggest 'test' was Christmas. In the past she would buy 'all sorts of presents' on her credit/store cards, just so her children would 'have big piles'. Her view was that this was showing what a good mother she was. Upon reflection, Diana stated that this was a waste:

They didn't even play with half the stuff ... It's still in boxes now. I'd rather spend time with the kids and take them for treats ... We are off to Peppa Pig World in the half term ... I've managed to save so they will have a great time.

Since starting the project, Diana felt that she had become more confident. She opened up to her partner and discussed her financial situation, broaching the subject of joint responsibility over household bills. Diana said she was more in control of her finances:

I have surprised myself and finally grown up. I realised just how much I wasted money and wouldn't dream of doing that now. I like to save my money ... leaving it in the bank to build up.

### **Case study 7.2: Household 15**

Roy was recruited to the project via the door knocking initiative. At the time of the initial interview he was living a very socially isolated existence, going out only to sign on, look for work and get his benefits. He had a high level of historic debt, was 'struggling to get by', commenting that: 'I get money one day and it is usually gone the next day'. Roy never knew how much money he had to spend or what he owed, was unable to save and recognised it was easy to get into debt. He commented: 'I don't have a life'. When asked about his views on being part of this project, Roy stated:

I've enjoyed being part of this project. It was good that the mentor came to sit in my house to talk to me. I got to know him and he actually listened to me. Before coming on the project, I was in so much debt and I just spent my money on something else. Now I think about paying my bills. It's him [the mentor] that has seemed to put a block in my mind – I don't just jump in now when I'm spending money.

Roy appreciated the practical support and assistance offered by the mentoring scheme. It provided information regarding benefit entitlements, how to reduce debt repayments and access local food banks. This, in turn, helped Roy, 'get through some difficult times'. When asked if he thought his spending patterns had altered, Roy commented:

My hand doesn't go in my pocket as often as it used to. My money stays in my pocket when I have it. I used to spend on things I didn't need or on things that only lasted a day or two ... I've learnt now ... Spending on 'crap' got me where I am today without a penny to scratch together.

Roy has become a volunteer with Thrive and has spoken out at several meetings. He was actively

involved in the doorstep lending campaign and was an actor in the 'loadsadebt' film (made in preparation for the affordability and data-sharing campaign). Roy talked about how his confidence was growing:

I am coming out of my shell a bit more ... I knew I needed to open myself up a bit ... I got into Thrive and it was like 'hang on I am doing something now'.

### **Areas for improvement suggested by mentees**

Whilst the comments of participants who remained with the mentoring scheme were generally positive, some gave feedback when asked about what aspects of the mentoring were not working so well. Whilst many of the comments were specific to individual households, the themes listed below were noted.

**Frequency of visits** - Participants felt more regular support, including a shorter length of time between visits, would be helpful.

**Style of visits** - It was suggested that mentors could be more informal, having a coffee rather than completing paperwork. One participant felt that the mentor could explain things more clearly.

**Feelings of being judged** - One household felt that their mentor was judgemental about their use of PerfectHome, which the key contact in the household described as her 'only option'.

**Reliability** - Another household had felt initially pleased with their mentor, but also commented that on occasions the mentor had not arrived when he said he would.

### **Mentors' perspectives**

At the end of the project, seven mentors were still active with the scheme. This section is based on interviews and mentor meetings in which they gave their reflections on the benefits and challenges of the scheme, both for themselves and their mentees.

#### **Mentors' views on the impact of the scheme**

**Making a difference** – Mentors were very aware the significant changes that can occur for some people, if they are supported. Their comments on the changes made by some of the households echo those of the mentees themselves. This is one mentor's comment:

It has made me even more aware of how important projects are in the local community. If this household had not had the initial knock on the door, she would have continued to be financially excluded for years to come with her debts out of control. This in turn is then likely to cause other issues with her health, self-esteem and family. (Mentor feedback, January 2013)

**Feelings of personal satisfaction when supporting positive change** - Mentors who made a connection with their households reported finding the experience fulfilling. There was also a feeling of satisfaction for mentors when a household had made progress towards their self-identified goals or had made significant steps forward, whether this was reducing repayments or opening letters from debt companies.

**Greater awareness of the everyday challenges faced by low income households** - The mentors felt their involvement was beneficial to their own practice. It gave them an opportunity to gain insight into the challenges of people's lives. One mentor, who is a CAB advisor, said that the first-hand experience of people's situation made her more aware of the people's lives she saw on a daily basis:

Normally it's 'wham bam, there's your fix'. Whereas with the detailed form [for the mentoring scheme] you're getting more background about the family, who supports the family, what's around them, how they've got into the debt they're in, their attitudes towards money - which you don't get a chance to do with every client normally. You firefight and off they go. It's gonna be interesting to be involved longer term and see if and how people change and if they do change. (January 2012, mentor meeting)

### **Challenges reported by mentors**

**Establishing and maintaining contact with households** - A challenge from the outset was the ability to co-ordinate sessions between mentors and households. Although initially this was mediated through the Thrive office, it was expected that as the mentor relationship developed this would be arranged between households and their mentors. At the outset of the project some mentors felt that an appointment scheme, arranging future sessions weeks in advance, was needed. However, this was not practical as many households did not initially prioritise the mentor sessions and would cancel if something else came up. Contacting households, making appointments and subsequent frequent cancellations was an early frustration in the project. There were 72 sessions cancelled or missed by households. One household cancelled on 21 separate occasions. A further seven sessions were cancelled by mentors, which needed to be rearranged.

**Limitations of single issue mentoring approach when households face multiple challenges: 'it's more like social work'** – Each household faced multiple challenges over the life of the project. For example, three households had children, a number of relationships formed and broke down, a number of households moved house (including two of the remaining households). Participants faced serious unexpected family crises, which made changing financial management a low priority. Mentors felt that it was quite difficult to separate the financial aspects of household members' lives and keep sessions focussed on providing support in this area alone. Households' financial situations were not always a priority for them during mentoring sessions. Mentors therefore could spend a considerable proportion of a session listening to other concerns. However, it was important to allow time for this as financial difficulties could not be looked at in isolation. Furthermore, allowing households the time to discuss other concerns aided the development of a trusting mentoring relationship. Nevertheless, for some mentors this was a challenge. The seconded advice workers talked about the difference between their advice work role and that of mentor:

Because of the work I do day-to-day, I didn't feel like I could know that information and walk out the door without saying: 'you really need to think about that before you actually sign for it'. (January 2012, mentor meeting)

We [CAB employees] generally give advice and deal with a specific issue. Our role is prescriptive - us initiating the advice. There is sometimes some difficulty taking off advice hat and putting on mentor hat. (February 2012, mentor meeting)

There was concern from some mentors about getting used to, and indeed encouraging, the households to take responsibility for things themselves rather than mentors doing things *for* them:

We need to learn to mentor and not take over. (February 2012, mentor meeting)

The role of mentor was one that was more involved than had been expected. There was some discussion at mentor meetings on the multiplicity of needs within the households; some mentors thought it was 'more like social work'. Whereas it had been anticipated that the focus could be kept on financial matters, mentors found that often the relationship that developed was more one of emotional support across a range of issues.

**Time pressures** - On a practical level, having enough available time to perform the mentoring role effectively was also an issue for mentors. One mentor said that the project work was more onerous than he had thought it would be and others said it had been more time consuming than they had anticipated, especially in the light of more pressing commitments in their paid work. Another noted that a visit to see a family took up a whole morning, once travel and writing up the notes was included.

**The difficulties of changing behaviour** - Mentors felt that generally people wanted help with financial issues when at crisis point. They may not see on-going money management and debts as a problem and this prevented change. Mentors commented on the difficulty they perceived in achieving substantial change within households. Going for 'quick wins' and providing advice when a household needed to deal with a specific outstanding debt or creditors was an achievable outcome, but they felt that supporting households to make more informed decisions around money management was more challenging:

[It's] an incredibly difficult concept ... they may have been living and [managing] this way for 30 or 40 years ... it's how their parents have managed money .. it's what they know. (March 2012, mentor meeting)

One mentor commented that she had hoped to work with a household to change the way they viewed debt and to provide ways out of such difficulties. But she had realised now that this was very difficult and that some of the issues were structural, such as the problems that resulted from long-term unemployment. On occasion mentors were frustrated that a particular opportunity had not been taken up by a household:

It's challenging – we can advise, support and provide options, but cannot make a client take a particular course of action.

I wished they'd come to me before extending their loan. (February 2013, mentor meeting)

One of the mentors seconded from the CAB reported having suggested that the household use the local credit union and might approach CAB to help with reducing repayments to creditors. However, the advice was not acted upon:

It's been quite frustrating ... they have not acted on my suggestions about how their financial situation could be made a bit easier.

## **Concluding comments**

It is difficult to quantify the achievements of the mentoring scheme, as the households involved were in a constant state of change, with external events influencing their ability to prioritise financial matters. This is evidenced by the fact that only six households remained in the mentoring scheme when it was drawn to a close (March 2013). Nevertheless, the achievements of some of the households were

significant, as the feedback from the mentees at the start of this chapter indicates. This suggests that financial mentoring can be successful in supporting changed attitudes and behaviour in relation to money management in some households. However, participants need to be ready to change and prepared to work hard to change ingrained habits for the sake of longer term benefits. The limited feedback from participants that left the scheme suggests that for many the mental energy and time commitment required was too difficult. Many households were living their lives on a day-to-day basis, unable to plan for the long-term and following entrenched patterns of short-term money management. It was only at crisis point that help was sought.

One very valuable element of the project was the two workshops that were facilitated with some of the participants. These enabled people to make links with one another, which some of them maintained. This led on to participants supporting one another materially, such as giving shoes and baby clothes. Two participants maintained contact through social media. This highlights the potential for neighbourhood-based support.

These findings suggest that the mentoring scheme offered by the *Debt on Teesside* project would need to be modified to make it more effective. It is important to tackle the neighbourhood influences on people's behaviour (the normalisation of debt) and work at community level (not just with individual households) to change prevailing attitudes and norms, embed neighbourhood-based financial support and services and tackle the prevailing ready availability of high cost credit in the context of persistently low incomes.

Box 7.1 outlines key points for developing a modified mentoring scheme, drawing on the lessons from the *Debt on Teesside* experience. Based on the experience of the project, the *Debt on Teesside* team also developed a community mentoring toolkit, designed to be of use for other organisations setting up mentoring schemes with socially excluded households (broader than just financial exclusion). The toolkit (Centre for Social Justice and Community Action, 2013: 7) includes 'top tips' to consider when setting up a community mentoring scheme as listed in Box 7.2.

#### **Box 7.1: Proposals for a modified financial mentoring scheme**

- **Target households that are already motivated to change** - for example, those that have already sought financial advice and have a commitment to working on money management. This would reduce drop outs and cancellations.
- **Work more intensively with fewer households**, with greater frequency of visits and contact. This would help maintain the commitment of the households.
- **Develop a group-based scheme**, starting with a tailored four to six week course around financial capability based in a community-based shared learning environment. A central aspect of this would be developing peer mentoring, which could be continued after the end of the formal course (via face to-face meetings or social network groups to maintain support). This would require fewer resources (volunteer mentors) and potentially would be more sustainable in the long term.

### **Box 7.2: Top tips for a community mentoring scheme**

- **Time and commitment** - Ensure the host organisation has the capacity to deliver. Bear in mind the time needed to carry out follow up work before and after sessions. Remember, mentor projects are not simply an add-on to existing projects. It is important to ensure you have dedicated staff time to create, monitor and support your mentor project.
- **Start small** - When starting your mentor project, think small and deliver a pilot project initially, supporting between 10 and 15 mentees. This will enable your organisation to review practice and make improvements.
- **Ensure long term investment** - Long term investment is needed in mentoring programmes if they are to achieve change in people's lives.
- **Ensure the mentor scheme is open and accessible** - Create opportunities and time (convenient to the mentees) to ensure mentees are able to take full advantage of the mentoring support scheme.
- **Create space for reflection** - Factor in the time to offer meetings for mentors, including mutual support and time for reflection. This will add value to the delivery of your mentoring scheme and allow the opportunity to address any issues that may arise.

## 8. Community action and campaigns

### Introduction

An important element of the *Debt on Teesside* project was its location within the broader campaigning and community organising work of Thrive and CAP. Data collected from the research has fed into the campaigns focusing on household debt, and some of the project participants have been involved in community action and campaigning. This chapter describes and discusses the community action and campaigning aspects of the project, covering Thrive's annual assemblies, specific campaigns, the extent to which the households were involved in these activities and the barriers to their involvement.

### Thrive assemblies in 2011 and 2012

During the course of the project, Thrive held two annual assemblies, in November 2011 and November 2012. An assembly involves gathering as many organisations and individuals as possible to hear the stories of the issues and actions on which local leaders have been working. The purpose of an assembly is to bring the issues affecting the community to a wider audience, celebrate policy change and launch new community campaigns. The speakers at the assembly are leaders from local institutions and, most importantly, the people affected by the issues being raised. This is in keeping with the fundamental principle of community organising: 'never do for others what they can do for themselves'.

In November 2011 the *Debt on Teesside* project featured in the assembly held in Stockton Sixth Form College, attended by 90 people. Two volunteer organisers from Thrive outlined their experiences with high cost credit. The Thrive annual assembly in November 2012 saw firsthand testimony from participants involved in the *Debt on Teesside* project on how they had personally benefitted from being involved, along with one of the mentors. The local media covered the event and there were over 150 people in attendance.

The items in the 2012 assembly covering financial inclusion included a summary of the *Debt on Teesside* interim research findings, followed by an item detailing how participants in the programme had benefited from mentor support. One of the Thrive volunteers then took to the stand to support her mother in telling the story of how she was over-indebted to several hire purchase, doorstep and catalogue credit sources, totalling around £1,000 per month. There was response from a former doorstep lending company regional manager now working for a Community Development Finance Institution, who confirmed that these were widespread practices in the home credit market. The Marketing and Sales Director of Buy As You View was also present to summarise progress on negotiations with Thrive on changing the company's policies and practices in response to earlier campaigns by Thrive and Church Action on Poverty.

### Local actions and national tactical campaigns

#### 1. Doorstep lending

Information from the households provided examples of the ways that high cost credit options such as doorstep loans and rent-to-own hire purchase products are often marketed. Many households reported that they felt pressured to take on high cost credit. The aggressive selling tactics used by some companies extend into collection techniques. Household 14, for example, was sent a personal message through the facebook social media site by a local doorstep lender asking her to pay up. She felt pressured by the agent into paying for her loan, which was one of approximately 25 loans she had

running across seven different doorstep lending companies. The same woman also had a logbook loan, which was weighing heavily on her finances and wellbeing. As she commented:

I had to think 'well right, [what are] my priority ones at the time?' I had to pay the ones that would get on my case the most. A phone call or a letter is not as bad as when they're at the door giving you grief.

When I first went on with them, I did a form. It was very brief, it wasn't a full run down of the stuff. When they done another loan, you never got asked if you could afford it, no. It was just 'here, here, here'.

I hardly ate anything. I don't know how I survived. (Household 14, end of project interview)

An example of the excessive interest can be seen on her logbook loan, which was originally for £960.94. The total to repay came to £2,827.50 (78 instalments of £36.25 at a flat invariable interest rate of 129.48 per cent and an APR of 503.7 per cent).

At the Thrive annual assembly in November 2012, a former doorstep lender spoke to the audience in reply to some of the households featured in this report. He said that the agents for his doorstep lending firm would target estates and look for tell-tale signs such as toys in the garden, as a way of finding hard-pressed households that might represent a target for high cost loans. Following this they would contact the households with a personalised leaflet, often with the agent's mobile phone number hand-written on the leaflet. They might deliver a 'permission to call back' notice or actually cold call the house, perhaps in combination with other marketing. He commented that high-cost credit is not usually sought by the households, rather it finds its way to them.

In response to aggressive selling by subprime lenders, the *Debt on Teesside* project obtained some 'no to uninvited traders' stickers for the households and mentors to distribute throughout the areas in which the project was working and where high-cost lenders were known to be operating. Several of the participants canvassed the areas, building up relationships with neighbours, as shown in case study 8.1 about the work of Roy and Neil.

#### **Case study 8.1: Roy and Neil's involvement in community-based action**

As well as benefiting in terms of increased individual financial capability and wellbeing, Roy and Neil became involved in campaigning and volunteering with Thrive (Households 15 and 3). They now visit others in the neighbourhood and offer each other support - for example, Roy helped Neil to move house. Roy and Neil also took to their local streets with the 'No uninvited traders' stickers and built relationships with others in their community on the doorstep. They plan to convene an action meeting to see where they take the issue and how it can fit with some more of Thrive's community organising campaigns. Neil spoke at a stakeholder day about the benefits of the project to his household's finances and wellbeing. Roy is also involved in the data sharing and affordability campaign. He opened up his house to a film crew and acted in the new debt campaign film, which will tackle the problem of affordability and data-sharing. He also spoke at the Thrive 2012 assembly in front of over 150 people on how the mentoring had benefited his household.

As well as contributing to the campaigns, Roy has become involved with Thrive as a volunteer. He has

approached other institutions, such as the local mosque, to get them involved in the organisation and he has demonstrated improved interpersonal skills and increased confidence. He regularly telephones other volunteers to convene meetings for the projects. In February 2013 he took part on a week-long leadership training in Manchester on community organising with volunteers and staff from other organisations from across England and Wales.

## **2. Incentivised saving**

Another local campaign on which the project worked was to sign up five households to incentivised saving with the local credit union. The research had highlighted that the households struggled to save up and that they had little knowledge of how credit unions worked. In response, Thrive put in a small grants request to the POCA (Proceeds of Crime Act) fund, which in this case was administered through the Illegal Money Lending Team, a multi-agency taskforce to tackle the problem of illegal money lenders or 'loan sharks'. The fund was a direct result of the monies seized from the activities of illegal loan sharks. Households were set the condition that they had to save £50 over a minimum of three instalments, triggering the release of £50 from the POCA fund into their credit union account. Three of the five households who signed up managed to do this. The group of local activists did a joint press release on both the doorstep lending and incentivised savings actions: 'Say "no" to the doorstep lender' and 'Robbing from the bad to give to the good'.

### **Case study 8.2: Tina's involvement in the incentivised savings scheme**

One of the beneficiaries of the incentivised savings scheme was Tina (Household 12, see Appendix 4, Case Study 3 for more information). At the outset of the project, Tina was heavily indebted to doorstep lenders and through the lifetime of the project moved to a saving habit. She was encouraged to make this transition through the incentivised saving scheme. Tina managed to save up the required £50 over three sessions and she commented that she is now saving up for her daughter's wedding and able to plan better for the future. She has also made new friends and networks through the learning days across the lifetime of the project.

## **3. Rent-to-own reforms**

Earlier work by Thrive and Durham University, including a project supported by the Friends Provident Foundation (see Friends Provident Foundation, 2010), led to a partnership with the Centre for Responsible Credit to begin a programme of work to reform the rent-to-own section of the high-cost credit market. During 2011-12, after lobbying the three main companies involved in this section of the market to come to the negotiating table, Thrive and CAP worked alongside partner organisations to negotiate a code of conduct for the companies to follow (see Gibbons, 2012). The companies present agreed to:

- Ensure that the cash prices for goods are competitive with others in the sector
- Use mystery shopping exercises to evaluate how prices are explained to their customers
- Provide a range of payment options and to price differentiate between these, for example by offering discounts to people who pay by direct debit
- Limit default charges

- Put in place policies and procedures to help people in financial difficulty and to refer customers in arrears to free, independent, debt advice agencies
- Develop clear policies for future complaints handling, and
- Provide clear annual statements of account.

#### **4. Data-sharing and affordability**

The rent-to-own programme of work is continuing with a second project in 2013, exploring the use of data in this sector and in relation to the wider home credit market. Data from the *Debt on Teesside* households was fed into this process, culminating in a meeting in Nottingham at the offices of Experian in January 2013. The roundtable negotiations with various stakeholders including Credit Reference Agencies (CRAs), rent-to-own companies and the Consumer Credit Trade Association (CCTA) centred around how to aggregate data to give an accurate picture of a high-cost credit customer's repayment record. As most CRAs work on a monthly cycle of repayment records for mainstream products such as mortgages and high street bank loans, they are not well suited to the tailored weekly, fortnightly or, in the case of coin metered rent-to-own companies, six-weekly collections. For example, a home credit customer who fell behind with their payments one week but made them up the next would still be considered by some companies in that sector to be a 'good payer'. But if the week of the missed payment occurred when the score was to be logged with the CRAs, it might be flagged up as a default. Instead of moving people to cheaper sources of credit, an unintended consequence of gathering this data might actually further exclude them.

The short series of meetings led to the Centre for Responsible Credit (Gibbons, 2013) producing a report: *Does increased data sharing benefit low-income customers?* The key recommendations from the report are:

- All high-cost credit providers should be required to share data through a real-time database, and to verify income at the time of making any credit advances. The Office of Fair Trading (OFT) should use its Irresponsible Lending Guidance to make clear the minimum level of disposable income that borrowers should be left with after taking account of consumer credit commitments, and lenders should be required to use the database to check that this requirement is met before advancing credit.
- Attempts to assess the impact of increased data sharing are hampered by lack of access to CRA-held data and analysis. BIS (Department of Business, Innovation and Skills), the OFT, and the new Financial Conduct Authority should consider how this can be improved in order to inform future consumer credit regulation.
- Better processes for the sharing of information are undoubtedly needed. Although the way in which weekly repayments are reported to CRAs is currently being reviewed, and a working party has been established by SCOR (Steering Committee on Reciprocity), consumer agencies are not currently represented on this. The SCOR working group should actively involve consumer agencies and test possible changes to the reporting mechanism to assess their impact on levels of credit access for good payers and those with poorer repayment records.
- Given the potential that payday borrowers are likely to use the product because they have exceeded their existing bank overdraft facility, the level of overdraft debt required to trigger a report to CRAs should be significantly reduced from the current £1,250.

- Increased, and more effective, data sharing is likely to result in a segment of low-income borrowers finding it harder to obtain credit. People turned down for credit should be referred to alternative sources of assistance.

As well as having the potential to offer loyal customers in the rent-to-own sector better prices and credit history, Thrive and the CfRC realised the potential of better data sharing to safeguard low-income customers from over-indebtedness and financial exploitation. If companies could get a clearer picture through sharing data more effectively to assess risk and build a credit history, then perhaps that same data could be used to prevent low-income customers from being committed to payments at a level that left them no money to survive. The *Debt on Teesside* project commenced the affordability campaign at the November 2012 Thrive Assembly and has trailed it at a number of events including the Middlesbrough Financial Inclusion Partnership and North East Child Poverty Commission during late 2012 and early 2013.

To highlight the issues, we presented a case example (Figure 8.1) from one of the most highly-indebted households in the project. The vast majority of the household's income is going out on high-cost credit. This is an extreme, but not entirely untypical, example of the over-indebted households that we have encountered in the *Debt on Teesside* project and Thrive's work.

**Figure 8.1: Household 14's weekly outgoings to lenders**



The campaign on data sharing and affordability will outline the following recommendations:

- All high-cost credit providers should be required to register details of their agreements on a real-time database, and to verify income at the time of advancing credit.
- The Office of Fair Trading should use its Irresponsible Lending Guidance to make clear the minimum level of disposable income that borrowers should be left with, with Thrive and the Centre for Responsible Credit proposing high-cost creditors should receive no more than one third of a household's gross income across all of their agreements in total.
- Lenders should be required to use the database to check that this requirement is met.

Linked with the campaign on data-sharing and affordability, participants and mentors from the *Debt on Teesside* project produced a film based on a spoof advert highlighting the issue and will target it at statutory bodies and lenders responsible for improving the situation. The film featured project

participants and mentors, working together with wider grassroots participants of the Thrive project, who are also affected by the problems of over indebtedness. This includes a woman who was paying over £1,000 per month, the vast majority of her income, to a combination of high-cost lenders. Project participants worked with the actor playing the salesman and the rest of the film production team to produce the film. The filming took place in one of the participant's homes. The film was shown at the celebratory learning event in April 2013, when several of the households that had been involved in making the film were present and spoke about their experiences of high cost credit. It will form a central part of an e-activist campaign, using the domain name [www.loadsadebt.com](http://www.loadsadebt.com), based on the name of the invented 'brand' promoted by the salesman star of the film, and will be part of Thrive and Church Action on Poverty's strategic 'poverty premium' of 'food fuel and finance' campaigning work. The online action will be targeted at government or commercial interests in the issue, with the plan of meeting with them to address the issue. As has been the case in the rent-to-own campaign work, Thrive will use evidence and, ideally, participants from the project in the negotiations.

### **Concluding comments**

The community action and campaigning part of the project has taken place at both local and national levels. Notable success was achieved by Thrive and CAP by taking their local-level experience on Teesside to their work with the Centre for Responsible Credit to reform the rent-to-own sector. A similar strategy is being developed in relation to the affordability and data sharing campaign. To date, the number of households that have engaged in community action locally has been relatively small, but planned work during 2013 is designed to involve more households, as they gain confidence and skills. Many of the households participating in the project have not been in a position to join in community events and activities due to their serious financial and other life circumstances.

## 9. Changing contexts and issues for action

### Introduction

This chapter outlines the current issues which have, or are about to have, a significant effect on households participating in the project and households in a similar position. Welfare changes are leading to a decrease in income for many low income non-pensioner households, especially those not in paid work. The loss of income from benefits may well lead to an increase in subprime credit use. This chapter discusses the changes occurring and what might be done at both local and national level to address some of the issues.

### Welfare reform

Welfare reforms as at April 2013 included: the one per cent uprating of benefits (less than inflation and in effect a cut), the under-occupancy charge ('bedroom tax', which cuts housing benefit for social housing tenants by 14 per cent for one 'spare' room and 25 per cent for two or more), the abolition of council tax benefit and its replacement by local schemes (resulting in a 10-20 per cent contribution by households) and the transference of Social Fund loans to local authority responsibility. As one participant commented:

At the moment money is still tight and I've got to do this bedroom tax from next month and stuff. So that's going to be a bit of a pain, with my son being autistic and ... needing a room to himself. Hopefully they'll help me with that... (Household 14, exit interview)

Recent research on the local impact of welfare reforms shows that Stockton may lose between £13 to £20 million, with 2,700 households facing a reduction in benefit due to new rules on 'under-occupation' of housing. Consequently there is an expectation by housing and advice professionals of rising debt levels amongst claimants (Institute for Local Governance, 2012).

From October 2013, Universal Credit (UC) will come into force for new claimants (including changed claims) and will be gradually introduced to all benefit recipients. This will be one monthly payment including benefits and tax credits. There are fears that the IT involved in the system as well as the direct payments, which include housing benefit, will lead to significant problems. Although financial assistance will be available, it might require service users to borrow money (through an advance payment scheme) which may lead to UC recipients beginning their claim in debt (Tarr and Finn, 2012: 2). Pilot direct payment schemes in six areas have seen a sharp increase in rent arrears. The pilot in South Wales reported a 50 per cent increase in arrears, while pilot projects in Edinburgh, Oxford and Southwark are showing around 30 per cent increases in arrears.<sup>13</sup> Participating households themselves are predicting problems with the welfare changes and some, such as Household 8 quoted below, state that the initial UC payments will be spent on other things identified as more pressing:

It [rent money] won't be going to the council straight away. So you'll have to pay all your rent, which I think is rather stupid, because I know that I'll be in arrears with my rent, I know for a fact I will. I know like my sisters and all the rest of them... I know I need a passport because we are planning a holiday, but I need a passport and my son needs a passport so I know for a fact that that money will go on the passports. (Household 8, midpoint interview)

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<sup>13</sup> [www.bbc.co.uk/news/uk-21756567](http://www.bbc.co.uk/news/uk-21756567) [13th March 2013]

The forthcoming changes to the Social Fund – the ending of community care grants and emergency crisis loans – and the move to local authority responsibility, will have a significant impact on our participating households and households in similar circumstances. The research found that participants were heavy users of the Social Fund, enabling the purchase of necessary items. Its replacement by a voucher scheme will have a negative impact on participants, many of whom were unaware of the changes. Lending by the Social Fund has potentially prevented the growth of an illegal lending trade, and its replacement by a goods or voucher system instead of cash may well see a rise in subprime borrowing or illegal lending. One of the reasons given for the relatively low rate of illegal lending in the UK, compared with France and Germany, is the safety net offered by Social Fund loans (Policis, 2006).

### **Accessibility of third sector credit versus the subprime market**

It might be hoped that a rising need for credit would mean a move towards third sector credit services, such as credit unions, or organisations such as Five Lamps that offer lower cost loans as well as financial advice. However no participants had a credit union account at the start of the project and a workshop discussion with a small number of participants found awareness of credit unions was low. By contrast participants were familiar with a range of subprime credit providers. This draws parallels with a recent survey undertaken with credit union staff and volunteers in North East England and Cumbria (Jones, 2012). This found a general perception that the subprime market was viewed as their direct competition: 91 per cent of all survey respondents considered the main competitors to be sub-prime lenders and 70 per cent of all respondents regarded home credit to be the single most significant competitor to credit unions. With the persuasive marketing and potentially instant cash loans offered by sub-prime lenders, the appeal of credit unions to low income customers is limited. Local credit unions also face difficulties in terms of overstretched staff and of being under resourced (Jones, 2012: 19). The current government is to invest in credit union expansion, offering £38 million over the next three years. This is conditional upon the credit union industry meeting a number of agreed milestones for collaboration, modernisation and expansion. However, as Gloukoviezzoff (2011:155) notes: ‘in order to encourage borrowers to use credit unions it is necessary to limit the availability of subprime credit.’

### **Cap on interest rates and/or the total cost of credit**

The *Debt on Teesside* research found that attitudes relating to money matters, such as savings and credit use, are fundamentally rooted in people’s circumstances. Because of a lack of access to mainstream credit, or third sector alternatives that met their needs, participants used high cost credit that ultimately caused greater debt and poverty. While some change can take place at individual and community levels, debt poverty needs to be challenged at government level, with serious consideration being given to a cap on the total cost of credit. Subprime providers, such as home credit and payday loan companies, state that they have processes in place to ensure affordability and that customers never borrow more than they can afford to pay back (indeed this is a requirement of licensing by the Office of Fair Trading (OFT)). The case for the introduction of a cap on the cost of credit in the UK was previously explored by the OFT in its review of high-cost credit, published in 2010. As the research illustrates, many people that cannot afford the repayments are able to access high cost credit from a number of sources. Current legislation needs to be enforced properly or new legislation should be introduced to cap either the interest rate or total cost of credit (the total amount paid, including interest and other charges such as compulsory insurance).

There are several arguments against capping of either interest rates or the total cost of credit. A long-standing one is the concern that it will reduce credit opportunities for low income customers, who

potentially would turn to illegal money lenders. However, research has shown that a cap on interest rates can protect low income consumers without negative impacts (iff/ZEW, 2010; Gibbons, 2012). Nevertheless, there is a worry that lowering interest rates alone is not enough, as credit providers would evade this, adding extra costs on loans in the form of ‘administration’ fees or default charges. It is feared that a cap would mean that some lenders may exit the market and those that remained would tighten their lending criteria, potentially restricting access for the most financially vulnerable customers. A price cap could result in the restructuring of doorstep loans, possibly including the introduction of default charges. It might drive lenders into particular markets, such as sale and buy-back of goods (which is not covered by consumer credit legislation) or extension of loans (Personal Finance Research Centre, 2013). Some market reactions could be mitigated by limits on the amount permitted in extra charges and restrictions on the number of times a loan could be extended (ibid).

One comparative analysis (Policis, 2006) argues that while the UK approach has resulted in very high cost credit for the highest risk borrowers, the UK is still faring better than other countries that have introduced restrictions. According to Policis (2006), in the UK over-indebtedness is low and stable, problem debt has been declining compared to France and Germany and illegal lending is much lower. However the available evidence on the impact on consumers relates only to interest rate restrictions, not the total cost of credit. As Ramsay (2009) notes, the empirical research is limited and therefore the impact is unknown. He cautions against adopting caps without evidence, but recognizes that the current situation is unsustainable for low income consumers burdened by high cost credit.

### **Affordability and data-sharing**

The issue of easy availability of high cost credit and lack of checks on affordability was discussed in Chapter 8 as one of the actions being taken forward from this project. This situation is worsening with the impact of the economic crisis and welfare reforms.

### **Concluding comments**

There are no easy answers to the problems faced by poor households that are regularly using credit to ‘get by’. At the heart of the problem lies a level of inequality in society that means that a significant number of households do not have sufficient income to live at a standard expected in a twenty-first century ‘developed’ country. The use and ready availability of high cost credit exacerbates their problems. A two-pronged approach to high cost credit is required: development of more flexible low cost credit through credit unions and community development finance institutions, alongside a tighter regulation of the sub-prime credit market.

## 10. Conclusions and recommendations

### Introduction

This chapter offers a review of the achievements of the project in relation to its original aims and objectives, along with recommendations for policy and practice.

### Review of project in relation to its original aims

The overall aims of the project as identified at the start were to:

1. Develop a sustainable programme of household mentoring on money management linked to community-based campaigns and cooperations to tackle the causes of high levels of debt in poor households on Teesside. [Action]
2. Undertake ongoing evaluative research using an action research model to explore the effectiveness of individual mentoring; methods for stimulating and supporting individual behavioural change by debtors and organisational and policy change by lenders; pathways to collective action. [Research]
3. Utilise and disseminate learning from the project to embed money management in Thrive and to use the learning in other agencies. [Dissemination and impact]

The extent to which each of these aims was achieved is summarised below.

#### 1. The action programme

**a) Mentoring** - The project developed a one-to-one mentoring programme, initially engaging 24 households, the majority of which were not in touch with debt advice agencies and were experiencing high levels of debt and a range of other complex problems in their lives. The programme was sustained from January 2012 until March 2013. The evaluation of the scheme suggests that a group- and community-based approach to developing financial capability would be more sustainable over the long term, and would also lead more easily into involving households in local collective actions and campaigns.

**b) Community-based actions and campaigns** – Several local actions were initiated by the project in relation to doorstep lending and incentivised saving. The work of the project fed into a successful national action to reform the rent-to-own sector of the high cost credit market, and is leading to ongoing action on affordability of high cost credit and demands for data sharing between companies. However, only five households from the project have been involved in these actions to date. This reflects both the all-consuming nature of the struggle to survive in many households, as well as a lack of capacity within Thrive (with only a half-time equivalent post attached to this project) to develop and support volunteers, in addition to running the mentoring scheme.

#### 2. The research programme

A programme of on-going evaluative action research was conducted, with the researcher and community organisers working closely together to recruit and interview households, set up and modify the mentoring scheme over time, link households to campaigns and synthesise data from research interviews and mentoring reports. Combining the role of mentor with gathering data for the research was not easy, given the time pressures on the mentors. They tended to see their role as mentors rather than systematic gatherers of research data. Ideally these roles should be separated, but this would require significantly more resources for the research side of the project.

### **3. Dissemination and impact**

#### **a) Dissemination**

The preliminary findings from the project were disseminated nationally at the Social Policy Association Conference in York in July 2012 (Flaherty and Banks, 2012) and the Social Work Action Network Conference in London in April 2013. Regional dissemination and discussion took place at several events on welfare reform in Middlesbrough and Stockton during 2012, while focussed workshops were held in December 2012 (Stockton) and February 2013 (Durham). The draft final findings were also considered at the Advisory Group in March 2013 and presented at a regional Celebratory Learning Event in April 2013. This led to the formulation of a series of recommendations and a brief programme of work during April-June 2013 with local and national agencies to consider how they might be implemented. An article was written and accepted for publication in the *Journal of Poverty and Social Exclusion* (Flaherty and Banks, 2013), an eight page *Research Briefing* (Banks et al. 2013) and a *Community Mentoring Toolkit* were also produced (Centre for Social Justice and Community Action, 2013). Further dissemination events are planned for Autumn 2013, including an invited presentation at the Middlesbrough Financial Inclusion Partnership and a launch of the reports and toolkit at Durham University's Wolfson Research Institute in Stockton in October 2013.

#### **b) Impact on Thrive and other agencies**

Building on the *Debt on Teesside* research, Thrive made applications in June and July 2013 to several funding sources to develop their work in the financial inclusion field. As a result, the Esmée Fairbairn Trust has awarded Thrive a grant of £30,000 from November 2013 over two years to support programme of working with local volunteers to counter images of people living in poverty and take action on 'fair finance' in Teesside. The Stockton and District Advice and Information Service, which was represented on the Advisory Group and provided seconded mentors for the project, is currently looking at embedding into its services some of the learning relating to the problems faced by indebted households using high cost credit. Through the Stockton Welfare Advice Network (SWAN), SDAIS has offered Thrive £5,000 to be involved in developing coordinated monitoring and recording systems for supporting financially excluded households living in Stockton. Thrive also submitted a bid to the Big Lottery Fund for work on financial capability.

### **Overall review of findings in relation to original research questions**

The specific research questions identified at the start of the project were:

1. What factors shape and/or constrain the financial choices made by the individuals and households participating in this project?
2. How effective is intensive, one-to-one mentoring by trained volunteers in changing the behaviour and attitudes towards managing money of people who have severe debt problems?
3. What contribution does engagement in community-based activities have on people's financial choices and how does this impact on their abilities to manage money?
4. What role can various partner agencies play in developing a coordinated approach to tackling financial exclusion in poor neighbourhoods?
5. What are the key lessons that can be learnt from this project that can be used elsewhere, and that can be built into the ways of operating of both specialist debt advice agencies and generic community projects in poor neighbourhoods where high levels of debt are problematic?

Inevitably the research has generated more substantial answers to the first two questions (about people's financial choices and the effectiveness of mentoring), whilst the answers to the last three questions will require ongoing action and research work after the end of the project

## 1. Factors shaping and constraining financial choices

The findings reported in Chapters 4 to 6 suggest that a number of factors influenced the use of credit by the households in the project, including:

- a) **Need for credit** - Having a low income and no savings means that credit is needed for coping with crises and major events, and in many cases for basic on-going living expenses.
- b) **Unavailability of low cost credit** - Lack of savings and a poor credit record means many sources of third sector credit (e.g. credit unions) and mainstream credit (e.g. banks) are not available to poor households.
- c) **Ready availability of high cost credit** - High cost credit is readily available, with few checks on affordability, and is frequently offered (e.g. by doorstep lenders) without being sought by households.
- d) **Normalisation of high cost credit** - Use of high cost credit is accepted and normalised in certain communities - used by families, friends and neighbours (e.g. catalogues, rent-to-own companies, doorstep lenders).
- e) **Short term approach to money management** - Attitudes towards money management are short-term. For many households, the main consideration in taking out a loan is whether the weekly repayment looks manageable, rather than the total cost of the loan over the repayment period.
- f) **Influence of consumer society** - Immersion in a consumer society means material goods are highly valued and purchasing of relatively high cost items (smart phones, TVs, computer games) is one way people can exert a choice to socially include themselves and their families. Purchase of such goods for children in order to counter peer pressure or bullying was commonly mentioned by the households in the project.

## 2. Effectiveness of mentoring

The evaluation of the mentoring scheme in Chapter 7 indicates:

- a) **Improved sense of well-being and confidence** – the clearest benefit of the mentoring scheme was a reported overall sense of households being more in control of their lives. This was a result of feeling that they had someone to talk to and a source of support in relation to financial matters, as well as a range of other problems in their lives.
- b) **Improved household finances** - one-to-one mentoring was helpful for some of the indebted households in moving them away from high cost credit and making savings on out-goings.
- c) **Improved financial capability** – some households developed a greater ability to assess and control their finances and made more considered financial choices.
- d) **The challenge of high cost credit** – despite feeling more in control of their lives and being more aware of the overall charges of high cost credit, many households continued to use high cost credit sources.

- e) **Intensive support is required** – for mentoring to work, it is important to build up a trusting relationship and for the contact between mentor and mentee to be frequent and regular. This is expensive and time-consuming.
- f) **Life circumstances and motivation to change influenced the degree of engagement** - the complexity of people’s lives meant that debt was only one of many problems, and often was not the highest priority. Some participants viewed the mentoring as useful for fixing immediate crises (such as rejection of a benefits claim or the arrival of a court summons), but did not feel the need, or have the capacity, to engage in long-term work with a mentor on financial matters.
- g) **The value of neighbourhood-based peer support** – the two workshops held with households participating in the project indicated the value of peer discussion and support. A possible revised model for a mentoring scheme could be a tailored four to six week course on financial capability in a community-based setting. A central aspect of this would be developing peer mentoring, which could be continued after the end of the formal course (via face to face meetings or social network groups to maintain support). This would require less external resources to be relied on (volunteer mentors visiting households) and might be more sustainable in the long term.

### **3. Contribution of engagement in community-based activities to money management**

To date, only five of the households involved in the project have engaged in community-based activities linked to the project. This is not surprising, since the households recruited to the project were selected on the basis of their high levels of debt and willingness to engage in one-to-one mentoring, rather than their interest in community action. Furthermore, the capacity of Thrive, a small community-based organisation, to undertake the amount of work required to engage households in community-based activities is limited. Hence at this point, it is not possible to assess what contribution engagement in community-based activities might make to the money management capacities and behaviours of households. However, feedback from households involved in the community action and campaigning, as reported in Chapter 7, indicates that for these individuals their involvement in community action boosted their confidence and reinforced the work of the mentors.

### **4. Role of partner agencies in developing a coordinated approach to tackling financial exclusion**

Several key agencies were involved in the project on the advisory group and some provided seconded mentors (Five Lamps, Fabrick Housing-Tandem Finance, Stockton and District Advice and Information Service and Tees Credit Union). This demonstrates a willingness to work together and to take learning from the project to develop further coordinated approaches to tackling problems caused by high levels of debt in poor households (as evidenced by the Stockton Welfare Advice Network proposals discussed in section 3 a) earlier in this chapter). Financial inclusion partnerships exist in the Teesside area: Middlesbrough Financial Inclusion Partnership and the Infinity Partnership (covering Stockton). These provide a structure for the recommendations of this research to be considered and implemented.

At two meetings of partner agencies that were convened by the *Debt on Teesside* project, a range of recommendations were made. These included:

- Developing incentivised savings schemes coordinated by a group of local organisations and/or businesses in Stockton and Middlesbrough.
- Partner agencies working with schools and colleges to conduct awareness campaigns on the benefits of savings for children and young people, who bring this learning into their families.

- Developing financial capability training for a range of professionals (social workers, health visitors, school teachers) so they can use this in their work.
- Improving links between social landlords and credit unions, in order to increase awareness of tenants of alternative sources of lower cost credit.

## **5. Key lessons for specialist debt advice agencies and generic community projects**

- Implications of welfare reform** – the changes to welfare benefits from April 2013 (including the freezing of benefits, under-occupancy charge and transference of Social Fund loans to local authorities), along with the switch to Universal Credit from October 2013 (monthly payments of all benefits for new claims) will have a significant impact on the households in the project and similar households. It will also generate an increased demand for advice on welfare benefits and debt, affecting local authority and third sector advice services. Traditional casework models of advice giving via one-to-one phone, internet and office-based services may need to be re-thought, with further resources being diverted to community-based schemes in targeted neighbourhoods.
- Flexible debt advice and financial capability** – many of the households in the project had not used debt advice agencies, had low levels of awareness of total levels of debt and the total cost of the high interest credit they were using, were unaware of their consumer rights and had very entrenched ways of managing a small budget. Whilst home visits from mentors can reach such people, this is time-consuming and may not always result in sustainable changes. Neighbourhood-based financial capability training and peer support schemes may provide an alternative model.
- Promotion of savings** – Participants in the project habitually structured their money management around not having savings. If people on low incomes are to move away from high cost credit, then the issue of savings has to be tackled, and requires a major change in both people’s circumstances and attitudes. Some work can be done through awareness raising campaigns about the benefits of savings, including work with young people on this theme; encouragement of savings through local credit unions; and incentivised savings schemes such as the one operated in the project with the local credit union.
- Accessible third sector credit** – Few participants were aware of, or used, third sector credit options in their areas. The most obvious alternatives, credit unions, are under-resourced and under-staffed and cannot compete with subprime credit companies in terms of marketing, doorstep lending and provision of instant cash. They also require savings to be built up before a loan can be given. Similarly, other third sector loan providers (such as Five Lamps in Thornaby) require credit checks that the households in the project cannot meet. ‘Product innovation’ is needed in the third sector, such as the direct challenge to the rent-to-own market through provision of lower cost alternatives through community-based stores and banks.
- Greater regulation of high cost credit sources** - Many of the high cost credit providers give poor or misleading information about pricing and total costs of products, do no credit checks and charge excessively high interest rates. It is essential that debt advice and other agencies draw attention to these lapses and push for existing regulations about advertising, pricing and affordability to be enforced by the Office of Fair Trading. They should also give serious consideration to supporting the campaign to introducing data-sharing between high cost credit companies and a cap on the total cost of credit (that is, the cost including interest and other required payments such as insurance). There is some debate about whether the introduction of data-sharing and systematic credit checks will limit the amount of credit available to people who need it to survive; and also whether capping either interest rates or the total cost of credit will result in people turning to illegal lenders or to particular markets not covered by consumer credit legislation (such as sale and buy-back of goods

or extension of loans). The actual outcome will depend on a range of factors, including the availability and take-up of support and advice on money management and of mainstream and third sector credit for customers with little savings and poor creditworthiness. There is a strong ethical argument for a cap on the total cost of credit, to prevent companies making a profit from the poorest members of society. This ethical argument also entails, therefore, a commitment to ensuring all members of society have adequate income on which to live and a reduction in inequalities in incomes and opportunities.

## **Summary of key recommendations**

- a) ***Development of neighbourhood, group-based financial capability and mentoring programmes*** – one-to-one mentoring can be effective, but is time-consuming and does not necessarily connect households with each other. In addition to one-to-one mentoring, support should be given to groups of people in their local neighbourhoods, including professionally-delivered financial capability courses, leading to trained participants offering peer support locally.
- b) ***Redeployment of staff to community-based work*** – advice agencies and housing providers might consider redeploying a small proportion of existing staff from casework to community-based debt advice and support projects.
- c) ***Coordinated action by partner agencies on Teesside*** – many agencies in Middlesbrough and Stockton are already meeting together to work on financial inclusion, particularly in the context of welfare reform. The research findings should be presented to the Financial Inclusion Partnerships to discuss further coordinated action.
- d) ***Research to monitor high cost credit use following welfare reforms*** – low income households have relied heavily on Social Fund loans. Follow-on research is recommended to monitor the effects of welfare reform, particularly the changes to the Social Fund, on the use of high cost credit in poor households.
- e) ***Development of infrastructure for Thrive to support volunteers and community activists*** – the resources and administrative infrastructure needed to support community-based volunteers is significant. It is recommended that Thrive seeks funding for a project to develop and support community-based volunteers and activists over a three-year period, building an infrastructure of training, support, monitoring and evaluation.
- f) ***Development of further low cost credit options for poor households*** – further work is needed with credit unions and other alternative credit providers to encourage and support greater accessibility and take-up of low cost credit options for poor households.
- g) ***Greater state regulation of high cost credit providers*** – current regulations about pricing and advertising in the sub-prime credit market need to be enforced; new regulations, including requirements for data-sharing to ensure affordability of loans, should be introduced, and a legal cap on the total cost of credit.

# Appendix 1: Summary of questionnaire used in initial household interviews

A 40-page questionnaire was used to record quantitative and qualitative information gained during the initial household interviews. This summary shows the main headings used.

## 1. Demographic information

### Household type

Couple household (non-pensioner); Couple household (pensioner); Lone parent female; Lone parent male; Single (no children); Living with parents.

### Questions about

Gender, age, occupations, qualifications, employment status and health of each adult and child in household

### Unemployment

1. Has anyone in the household been unemployed during the past 5 years?
2. If yes, how many times have you or others in the household been unemployed in the last five years?
3. If yes, have any of these periods lasted for 6 months or more?
4. Did unemployment impact on your debt situation?
5. If yes, could you tell me in what ways?

## 2. Money matters

### Household Income

1. Roughly what is your total weekly income (from earnings/benefits/tax credits etc)?
2. Does your income come mainly from: Employment; Benefits; Mix of Employment and Benefits; Other?
3. Do you have any bank account/s?
4. Does your partner have any bank account/s?
5. Do you/your partner have a debit card/s with that/those account/s?
6. Do you (or your partner) have a Post Office account?
7. Do you have any savings (ISA/with family/penny jar)?
8. Roughly how much in savings do you have?
9. Details of type/s of savings

## 3. Credit and Debts

### Overall debt

1. What is the total of household debt do you think?
2. How long have you been in debt?
3. What do you think are the main reasons for getting into debt?
4. Are credit arrangements: In your name; Partner's name; Both (jointly); Both (separately); Other
5. Are debts: In your name; Partner's name; Both (jointly); Both (separately); Other
6. Are you (or your partner) overdrawn?
7. If yes, what is the amount?
8. Are you often or always overdrawn?

9. Are there certain things that make you overdrawn?

#### **Questions about different kinds of loans.**

For each type of loan a range of similar questions were asked along these lines:

- If yes, how many loans?
  - If yes what is the total amount?:
  - If yes in whose name is/are the loan/s? :
  - Do you know the interest rate on those loans?
1. Do you or your partner have one or more bank loans?
  2. Do you (or your partner) have any other company loan/s (e.g. Blackhorse, Welcome)?
  3. Do you or your partner have any credit card/s?
  4. Do you (or your partner) have any doorstep loans (e.g. Provi, Shopachek) *Additional question: Do you know how much you have to pay back?*
  5. Do you (or your partner) have any store card/s?
  6. Do you (or your partner) have any rent-to-own purchases (e.g. Buy As You View, BrightHouse, Perfect Home) *Additional questions: If yes how much does the total of goods come to?: Do you know how much you have to pay back?*
  7. Do you (or your partner) have any catalogue debts? *Additional question: Do you know how much you have to pay back?*
  8. Do you (or your partner) have internet money lender/payday loans (e.g. Wonga, Money Shop) *Additional question: Do you know how much you have to pay back?*
  9. Do you (or your partner) have any car loan or logbook loans?
  10. Do you (or your partner) have any loans from family and friends? *Additional question: Do you have to pay back extra?*
  11. Do you (or your partner) have any other loans? (Social Fund, crisis, informal lending, loanshark) *Additional question: Do you know how much you have to pay back?*

#### **Preferred ways of borrowing and buying goods**

1. What is your preferred way of borrowing money if you need it?
2. Why do you prefer that way...?
3. What is your preferred way to buy goods that you need?
4. Why do you prefer that way...?

## **4. Debt problems**

### **Housing**

1. Do you rent or own your home?
2. Do you have rent/mortgage arrears?
3. How much do the arrears come to?
4. Are you several rent/mortgage payments in arrears?
5. Do you find yourself in arrears frequently?

### **Council tax**

1. Do you have Council tax arrears?
2. How much do the arrears come to?
3. Are you several council tax payments in arrears?
4. Do you find yourself in arrears frequently?

### **Have you experienced any of the following in the last 12 months?**

1. Being threatened to be 'cut off' by fuel suppliers?

2. Have you received letters from bailiffs/bailiff companies?
3. Have you experienced harassment by creditors?
4. Received letters from debt collection agencies?
5. Being threatened with legal action to recover money owed?
6. Threatened repossession/eviction of the home?
7. Having a county court judgment?
8. Repeated penalty charges by banks or utility companies?

## 5. Money matters questions

1. How would you rate yourself in terms of how well off you are financially on a scale of 1-10? [With 1 being struggling to get by and 10 doing well]
2. On a scale of 1-10 how easy or difficult do you find it to keep up the repayments you have to make?
3. On a scale of 1-10 how bad would you say your debts are compared to other people round here? [With 0 being much worse than other people round here and 10 being much better.]
4. Do you or your partner keep a record of spending?
5. [If *have access to bank/PO account*] do you or your partner check the balance before withdrawing money?
6. Do you (or your partner) check bank statements?
7. Is it you or your partner who deals with money matters?
8. Does that include spending on big items? Probe to find if who manages day to day finances is different when large purchases are made
9. Who is responsible in the house for making sure things get paid?
10. Do certain debts get repaid from certain sources of money? (e.g. men's wages, tax credits/women's earnings)
11. Have you or your partner contacted any debt advice agencies?
12. Did you find this advice helpful?
13. If yes – how so. If not why not? Find out views and experiences on seeking debt advice
14. Has there been any occasion in the last year when you have had to ask friends or relatives for money to make ends meet?
15. If for some reason you were in serious financial difficulties and had to borrow money to make ends meet, how easy would that be?
16. Why is that?
17. If you were to find yourself in an unforeseen situation, where you had to raise £500 within a week, could you manage that?
18. How difficult would this be?

## 6. Well-being

1. What are your top three priorities in life?
2. Overall, how satisfied are you with your life nowadays?
3. Overall, how happy did you feel yesterday?
4. Overall, how anxious did you feel yesterday?
5. Overall, to what extent do you feel the things you do in your life are worthwhile?

**The following questions are asking how confident you feel in different situations. As with all these questions there are no right or wrong answers.**

**On a scale of 1-10 how confident do you feel dealing with:**

1. Your employer
2. The jobcentre/job advisor [if unemployed or off sick]
3. The school
4. Banks/building society
5. Doorstep loans (Provi/Greenwoods) agents
6. Catalogues
7. Rent-to-own such as Buy As You View, PerfectHome or BrightHouse

## 7. Money and spending

The following statements are on a scale of 0-5, with 0 meaning that you strongly disagree and 5 that you strongly agree.

1. I use my money very carefully.
2. I budget my money very well.
3. I pay my bills immediately in order to avoid interest or penalties
4. I know almost to the penny how much money I have in my purse, wallet, or pocket at all times
5. I prefer to use money rather than credit cards
6. I always know how much I have in my accounts [*if applicable*]
7. I prefer to save money because I'm never sure when things will collapse and I'll need the cash
8. I am proud of my ability to save money
9. I always pay bills promptly
10. I am more of a spender than a saver\*
11. My attitude toward money is very similar to that of my parents
12. Taking out a loan is a good thing because it allows you to enjoy life
13. It is a good idea to have something now and pay for it later
14. Using credit is basically wrong
15. I'd rather go without than get something 'on tick'
16. Being in debt is never a good thing
17. Having credit is part of today's lifestyle
18. Borrowing money is sometimes a good thing
19. Borrowed money should be repaid as quickly as possible
20. Most people run up too much debt
21. It is OK to borrow money to pay for children's clothes

What changes would you like to see in your financial situation over the next year?

## Appendix 2: Overview of households (HH)

HH no.	Circumstances at initial interview	Circumstances at subsequent interviews
1	Single male household; unemployed for most of the past five years. Debts (estimated at £2,300) accrued in the last 1-2 years. Short-term objective was to reduce the repayments to the Social Fund.	No mentoring sessions due to job interviews and householder entering paid work.
2	Lone parent with two children; mental health issues. Lots of outstanding doorstep loans.	No mentoring sessions because the house was boarded up due to a fire when visited.
3	Couple with two children. Not working due to long-term health issues. Debts totalled £5,900, including two bank loans totalling £2,790 and an overdraft of £1,200-£1,700. Concerns about living with an overdraft.	Eight mentoring sessions. Loans were extended to repay over a longer period, but the overdraft facility was lost, which they found difficult. A new credit arrangement was made for a TV catalogue purchase. They participated in the credit union incentivised saving scheme.
4	Couple with three children, the eldest of whom was disabled. Key contact had chronic health issues. The total household debt was £2,000-£3,000. The debt had been present for 3-4 years. Key contact was often overdrawn (£50-£100, at the time of interview). Her partner had a Welcome loan of £1,000-£3,000. She had two doorstep loans amounting to £300-£400 and an internet money loan of £700-900 paid at £79pw.	One mentoring session and then they left the project - no reason was given.
5	Female lone parent (widow) with three children aged 11, 20 and 21. The total household debt was £700: £400 catalogue and £300 Provident. Key contact found herself overdrawn quite often because of living expenses. She wanted to feel more in control of her money and be able to save up and be more resilient.	One mentoring session, which she found very helpful. She felt that she was on the right path and needed no more sessions.
6	Female lone parent with one son. Debts were £1,000-£2,000 and she had been in debt for 2-3 years. Some hire-purchase was only recently acquired. She had a County Court Judgement (CCJ) in the last 12 months, which she thought was because of a store card (H & M) and water rates. She also had some current deductions from benefits from previous social fund loans.	No mentoring sessions – unable to contact despite phone calls and house visits.
7	Young couple with two children. Household debt was around £5,000 and debts had grown over the last 1-2 years, including one doorstep loan of around £300 and a	Two mentoring sessions. There were no further sessions because the relationship broke down and they left

	BrightHouse loan of more than £1,000. Their main issue was a £500 logbook loan on which £1,500 was owing.	the project. One partner did gain employment.
8	Young female lone parent with one child. Debts included a BrightHouse loan of £2,618 for a TV and a washing machine. A book company and the mobile telephone company Orange were chasing her for debts.	Three mentoring sessions. Participant started saving, but then the mentor could not contact her and she moved house.
9	Female lone parent with two children. Debts of more than £1,000 including a BrightHouse loan (£24 pw) and on-going Provident and Social Fund loans. Money was also owed to the water company and she had received debt collector/bailiff letters regarding this.	One session. The next visits were cancelled and the mentor could not get in contact.
10	Couple with baby of seven months. Male partner in full-time paid work. Total debt estimated at £4,600 (under-estimate) and the length of debt was 4-5 years. Debts included: credit cards (£1,000-£3,000), several payday loans (including Wonga £450) and three others of £150. Cooker and wardrobes were from PerfectHome. Total repayment cost of wardrobes came to £2,200 (payment over three years). They also had £600 council tax arrears.	Three mentoring sessions. Nevertheless, the household took out several new credit agreements, including two doorstep loans, three rent-to-own credit agreements and roll over of payday loans.
11	Female lone parent with a two year-old boy. Some old store card debts and deductions from benefits for a crisis loan seemed to be the most pressing problem. She had one doorstep loan (Provident) and said she had gone without food before to service her debts.	No mentoring sessions and no reason was given for dropping out. Attempts were made to contact her through phone and house visits.
12	Widow with a son of 18 living at home in private rented accommodation. She reported that she had bipolar and other health problems and had been on sickness benefits for 12 years. Estimated debt was £3,000 although individual debts added up to more. She had one doorstep loan with Greenwoods (£ 1,720), catalogue debt of around £1,000 and owed more than £1,990 on water rates.	Four mentoring sessions. Participated in credit union incentivised saving scheme. Went to the Citizens Advice Bureau (CAB) after first session and arranged debt repayments, which significantly increased household income. She moved house and started a new relationship which helped her financially and emotionally. She started saving through shop schemes and the credit union, and said it was her first debt-free Christmas.
13	Couple recently evicted from housing association property living on a very low income of around £70 per week, in part because they had to use their Jobseekers Allowance (JSA) to top up their housing benefit. Total household debt was around £1,000 and this had been on-going for 2-3 years. Housing association was owed around £650, council tax £500, plus £278 in fines and around £350 for 3-4 loans from the Social Fund.	Two mentoring sessions. Relationship breakdown meant that one participant moved to a different property. Signposted to agencies for other issues. Subsequent visits to both participants, but no more mentoring sessions undertaken.
14	Female lone parent with four children, one of whom is autistic. She was registered as a carer for her father who lived locally. She had a range of debts including 25	Six mentoring sessions. Participant 'debanked' herself during the course of project due to charges. She visited

	<p>doorstep loans (£270 pw is paid to a number of doorstep loan companies), a logbook loan, catalogues which she thought totalled around £10,000 (although actual debts came to around £15,000) and she was considering a debt relief order. Debts had accrued over the past 4-5 years.</p>	<p>Middlesbrough Citizens' Advice Bureau and significantly reduced repayments; she returned the sofa to PerfectHome and bought a second-hand one and took on no new credit arrangements. She reported that she no longer broke down worrying about her debts. She said she will never borrow money again from high cost lenders and will instead look at cheaper alternatives which in the past she was unaware of. She was still considering a debt relief order at the end of the mentoring.</p>
15	<p>Single male, living alone in private rented accommodation. Had quite an isolated existence, only going out to sign-on once a fortnight. He had a number of debts and thought he owed about £10,000 but many of these were left behind. He had 3 children who lived elsewhere. He was on Jobseekers Allowance (JSA) but was paying back an unknown number of crisis loans and therefore did not receive the full amount.</p>	<p>Six mentoring sessions. Created a budget. Circumstances changed when new partner moved in and became pregnant; they shared money but had significant problems with benefits claims. They attempted saving, motivated by the forthcoming baby, but needed money for fuel and food. On-off use of Cashconvertors - pawning his phone to free up cash for daily essentials. Relationship breakdown meant that at the end of project he was living alone once more and needed to move house because he could not afford the rent. Became involved in Thrive campaigns.</p>
16	<p>Female lone parent, three children living in the household, one was her nephew. Total household debt estimated at more than £1,000. 6 doorstep loans (Naylors, Provident) and a payday loan from Loans For You. She had a Littlewoods catalogue and owed about £325. She had a number of budgeting/crisis loans and paid £28.40 per week from benefits and she thought there was about £600 still owed. She had rent arrears of £135 (arrears did reach £800). She had received letters from debt collection agencies regarding Littlewoods catalogue and letters from the MoneyShop.</p>	<p>Two mentoring sessions and attended workshop. Dropped out because she said she had 'too much going on'.</p>
17	<p>Female lone parent with two children and one son at home weekends. Total household debt more than £3,000. She had 3 doorstep loans with Naylors. She had a sofa from PerfectHome (2,000 ) and payments for this were due to end in March, although payments were ongoing for other goods (Christmas presents of playstation, 3DS). She had catalogue debts of around £1,000. She had received letters about unpaid water rates (on a different property) and thought she owed around £200.</p>	<p>One mentoring session. Son had serious accident and she wanted to postpone involvement, but after following up with letters, home visits and phone calls there was no response.</p>

18	<p>Single female in her early 20's. She was evicted from her housing association property and was therefore homeless but was living at her boyfriend's flat. Her health was described as very bad and she had mental health issues. She had been unemployed for five years continuously. Estimated total debt was £450 but she owed £800 in council tax arrears and £400 in rent arrears. She also had a Provident loan which came to £490 in repayments (but this was at her previous address) and repayments for a crisis loan of more than a £1,000.</p>	<p>No mentoring session, participant went into hospital and afterwards moved house and dropped out of the project.</p>
19	<p>Young single man in his early 20s living alone. He was on Disability Living Allowance (DLA) and Employment and Support Allowance (ESA). Total debt was between £200-£320 and his main reasons given for getting into debt were a contract mobile phone bill which got out of hand and his benefits being stopped 'for ages' which meant he was left with unpaid utility bills. He was engaged in a two year gym contract at £15 a month despite not attending. He had a Social Fund loan of £400 and paid back £10 every fortnight.</p>	<p>Eleven mentoring sessions. Participant cancelled gym contract, created a budget and prioritised utility bill payments. He did slip into rent arrears and borrowed from a family member to pay. He did take out a Wonga loan and regularly used Cashconvertors since the start of the project, but reported feeling much more in control of finances.</p>
20	<p>Female lone parent with four children. She had various doorstep loans (Provident, Greenwoods and Shopacheck) totalling over £1,000. At the time she was putting all these debt letters in the bin. Estimated total household debt was around £2,500 and she had been in debt most of her adult life.</p>	<p>No mentoring sessions.</p>
21	<p>Couple household with two children. They were expecting a third child in May 2012. Household income was less than £200 a week. Total debt was in the region of £2,000 and they were unable to make ends meet. Debts included two Shopacheck loans (£340 in total), overdraft (£440), Littlewoods catalogue (around £115) and a Social Fund loan (£300-£500). Rent arrears (to Tristar) came to £800 and she was taken to court and was paying £18 pw towards the rent arrears. Other repayments included: £50 per month towards paying an overdraft off; £30+ to PerfectHome(children's beds and a laptop); £10 a week to catalogue debts and £9.30 pw was deducted from benefits towards the Social Fund loan.</p>	<p>One mentoring session - arranged budgeting. Appointments were made for further mentoring session but the participants were not in. It was subsequently found out that they did not want to continue with the project.</p>
22	<p>Lone parent father with one son. He was long-term unemployed and had total debts estimated at around £2,000 including a £1,700 Provident loan (he was due to pay £40 per week, but at the time was not paying) and a £300 payday loan. He also had a Social Fund loan which he thought was around £800. He had 4 weeks of rent arrears but said this was the first time he had had rent arrears in 2 years.</p>	<p>One mentoring session. Participant was moved onto a training scheme by jobcentre and no longer wanted to take part in the project</p>

23	<p>Single female living alone, multiple disabilities. She had an income of around £100 (from Incapacity benefits and Disability Living Allowance) and around £3,000 of debts. She had goods from PerfectHome and BrightHouse (paying £20 and £22 a week respectively) and paid £15 to Jacobs (bailiffs) weekly. She had £50 rent arrears. She was threatened with eviction last year because of rent arrears and also owed council tax of £139.</p>	<p>No mentoring sessions. Adjustments to the house were made for greater mobility after contacting housing association at initial interview. Participant died before any mentoring sessions could take place.</p>
24	<p>Participant in her late 20s, living with her male partner (who was in full-time employment) and six year old son and they were expecting her second child. Both adults in the household had experienced mental health problems (depression and anxiety). Total debts were more than £11,000: credit cards (£5,000-£10,000); store cards (£1,400); catalogue (£2,000) and rent arrears. She also believed she had a County Court Judgement (CCJ) against her but did not know what for. She had had debts for more than 5 years.</p>	<p>Nine mentoring sessions. She addressed her debts. Previously she had ignored all letters for more than a year. She had attended a Citizens' Advice Bureau appointment but said she felt 'judged'. Sorted benefit and tax credit claims. She started to shop at charity shops rather than catalogues and was pleased with saving money this way. Her unstable relationship and a serious mental health episode experienced by her partner hindered her ability to engage fully. Her partner was suspended from paid work at the end of 2012 and this impacted on finances, although she did bear most of the financial responsibilities and her partner's contribution was minimal.</p>

### Appendix 3: Financial exclusion and debt risk factors by household (initial interview)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	
Poverty	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	
Poor mental or physical health*		●	●	●			●				●	●				●	●	●	●	●			●	●	
Poor mental or physical health (child)			●	●	●									●		●									
No qualifications*		●					●					●	●			●					●		●		
Lg-term unemployed*	●				●	●	●	●					●		●						●	●			
Long-term sickness*		●	●	●			●					●				●	●	●	●					●	
Lone parent	●	●			●	●		●	●		●			●		●	●				●		●		
Bank account**	●		●		●	●	●			●	●	●	●	●	●	●	●		●		●	●	●	●	
Rental property	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Large family (3+ children)				●	●									●		●					●				
Benefits as sole income	●	●	●	●	●	●	●	●	●		●	●	●	●	●	●	●	●	●	●	●	●	●	●	

\*Relates to at least one adult member of household. \*\* Many of these were basic bank accounts, which have limited services, such as no or limited overdraft (£10).

## Appendix 4: Case studies of households

### Case study A1: Household 3 (HH 3)

#### a) Initial interview

HH 3 comprised a couple (Neil and Joan) with two children aged 16 and 13. Neil had a number of health issues and a disability. Joan's 13 year-old daughter also had health issues. Neil was not in work due to his disability and Joan was his full-time carer. Weekly income was between £200-£300, from benefits. Debts totalled £5,900 and were in Neil's and Joan's names separately. Both reported being left debts from previous partners. There was a catalogue debt of £399 in Joan's name, and an amount borrowed from friends and family. Repayment of the overdraft and outstanding debts left the family with no spare income.

#### b) Goals identified by participating household

Short term	Medium term	Long term
<ul style="list-style-type: none"><li>• Feed us and pay rent</li></ul>	<ul style="list-style-type: none"><li>• Save for daughter's birthday</li></ul>	<ul style="list-style-type: none"><li>• Save for family holiday</li><li>• Pay off debts</li><li>• Repair laptop hard drive</li></ul>

#### c) Changes during the project lifetime

Eight mentoring sessions were conducted between January 2012 and January 2013. By the end of the project, HH3 felt that their financial position was similar to that at the beginning. They underwent changes in living arrangements during the project and faced major medical emergencies.

#### *Positive financial outcomes*

The household got many items second-hand, using internet sites, charity shops and friends, and did so before joining the project. They kept track of their spending and made cutbacks where possible - for example, their daughter walked to school instead of taking bus. Other positive outcomes included:

- The mentoring project was helpful to them as it made them 'think more' about their spending.
- They looked around for cheaper household insurance and changed provider and now have a better deal.
- They now keep a close eye on financial matters and have a wall chart detailing income and expenditure.

#### *On-going challenges to their financial situation*

- HH3 did not engage with the Citizens' Advice Bureau to seek debt and money advice, despite regular encouragement from the mentor at each session.
- They extended their loan to seven years to make payments more manageable, but this lengthened repayment period and costs.

- HH3 took part in the credit union matching scheme, but were unable to save the £50 required by the end of March.
- Family emergencies took priority over financial issues.

**d) General summary**

Although HH3 benefitted from the sessions and stayed in the project, the mentor felt that they did not take full advantage of suggestions about budgeting and getting all payments into one account. The mentor was disappointed they had not asked her about options to extend their loan, as she felt other options would have been better. HH3 seemed happy to keep things as they were because this is how it has always been done and they felt they were managing their finances well. They reported finding the June 2012 workshop a positive experience.

**e) Mentor relationship**

The mentor felt that she had been able to have a positive effect on HH3’s situation in the first half of the project - for example, discussing possible options to reduce their expenditure. However by the end of 2012, the mentor was not sure how successful the mentoring relationship had been. She reported ‘beginning to feel that they don’t really listen to my suggestions – I have mentioned the Credit Union and CAB several times’. Her suggestions were not acted upon (until incentives to join credit union were offered). HH3 reported being happy with their mentor. HH3 got involved in some campaigning and spoke at several events.

**Case study A2: Household 8 (HH8)**

**a) Initial interview**

Fay was a young female lone parent with one child aged three. Her income was from benefits at less than £200 per week. She had no bank account. She had one in the past, but it led to bank charges so she unbanked herself. Fay had no savings and said she had total debts of less than £1,000 - although it appeared to be nearer £2,000 as repayments to BrightHouse came to £2,618 for a TV and a washing machine and she also had a Social Fund loan. Fay paid £23 a week to BrightHouse, which had nearly two years to run.

**b) Goals identified by participating household**

Short term	Medium term	Long term
<ul style="list-style-type: none"> <li>• More control over money</li> <li>• Better planning</li> <li>• Try saving</li> <li>• Benefit check</li> </ul>	<ul style="list-style-type: none"> <li>• Bank account</li> <li>• Trust fund</li> </ul>	<ul style="list-style-type: none"> <li>• None decided on</li> </ul>

### **c) Changes during the project lifetime**

Four mentoring sessions were conducted between March 2012 and August 2012. By the end of the project the financial position of HH8 had not changed significantly as F had taken out new loans. However, Fay felt she thought about money matters more carefully.

#### ***Positive financial outcomes***

- Started saving (using cash system - savings tin).
- Changes in managing money: recognised over-spending ('good week/bad week' situation) and stopped spending the 'spare' money available every other week.
- Started to use different purses for different bills.
- Applied to Halifax for a basic account (no overdraft facility). The plan was to leave only Child Benefit in the Post Office account, which would pay for TV licence and other annual bills.
- Keeping letters from companies demanding money rather than throwing them away.

#### ***On-going challenges to her financial situation***

- Fay set up a basic bank account with Halifax on the advice of her mother. However, the nearest Halifax was in Middlesbrough and Fay did not like going to town because of crowds. She also could not afford the travel costs.
- Fay was worried she would lose Housing Benefit when the 'bedroom tax' came into force in April 2013, but moved house in February 2013.
- Court fine for TV licence non-payment.

### **d) General summary**

Over the course of mentoring Fay's finances went up and down. She looked at budgeting and high cost loans and took out two new loans (first of which was a voucher) with Provident. She felt that without a loan at Christmas she could not provide properly for her son. At the beginning Fay's mentor felt she was not in control of her money management, but she moved to becoming banked rather than operating purely in a cash-based system. Fay was very positive about the changes she had made. She had been notified of 'bedroom tax' of £13 per week and, to try to pay this, she cancelled insurance on items she had bought. Fay moved house in February 2013 to avoid the 'bedroom tax'.

At the end of the project Fay still had remaining debts connected to the TV licence, Orange mobile and a book club. Her son was going to start school soon and Fay intended to go back to college to complete a childcare course.

### **e) Mentor relationship**

The mentor reported having a number of positive meetings with Fay. He believed that she had gained confidence and appreciated the involvement of a mentor: 'She is willing to engage and she is becoming empowered'. He felt he offered both information, emotional support 'but most of the time it's both'.

## Case study A3: Household 12 (HH12)

### a) Initial interview

HH12 comprised a widow, Tina, with a son of 18 living at home, currently at college. She was in private rented accommodation. She reported a number of health problems, including being bipolar and diabetic. She had been on sickness or disability benefits for 12 years and was in receipt of Disability Living Allowance and income support. She reported using catalogues for many years. Although she had some debts, these were manageable. However, four years ago she borrowed money, which she identified as the primary cause of her current debt situation. HH12 had a weekly income of £250 plus Child Benefit. Tina had a basic bank account. The estimated total of household debt was £3,000, although individual debts added up to more and she had been in debt for four to five years. She had one doorstep loan with Greenwoods totalling £1,720, a Littlewoods's catalogue debt of around £1,000 and owed more than £1,990 on water rates.

### b) Goals identified by participant

Short Term	Medium Term	Long Term
<ul style="list-style-type: none"> <li>• Save a few pounds per fortnight in a savings tin.</li> <li>• Improve organisational skills by obtaining a folder in which to keep important letters and documents.</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to re-pay loans, prioritising the Five Lamps repayments.</li> <li>• Consider moving home. To begin with, consult Compass housing list with a view to possibly moving to a council property.</li> </ul>	<ul style="list-style-type: none"> <li>• Save a larger sum of money, with a view to possibly saving enough to open a bank account.</li> </ul>

### c) Changes during the project lifetime

Four mentor sessions were conducted between June 2012 and November 2012.

#### *Positive outcomes*

- Lower debt repayments were arranged via the Citizens' Advice Bureau (Greenwoods at a rate of one penny per week and Naylor's at a rate of £1 per week), therefore increasing income.
- Increase in disability benefit (moved onto middle rate).
- Son awarded Carer's Allowance.
- Moving house – increased security and safety as well as manageable rent.
- Son and mother are now shared tenants and therefore rent significantly reduced.
- New relationship has reduced household costs because of sharing of resources and has been a psychological boost.
- Successfully started a number of saving schemes and was proud to have no debts at Christmas.
- Now feels in control of finances

### ***On-going challenges to financial situation***

- Tina said she would be embarrassed to pay one doorstep lender a £1 per week as she has 'known him years'. So she pays £10 a week. After discussing this, the sum was reduced to £5 a week and she was happier to pay more than she was required to.

### **d) General summary**

The circumstances of HH12 changed quite significantly over the course of the project and Tina's goals were largely achieved. Manageable debt repayments were arranged through the local CAB, which resulted in more direct income for her and her son. By the summer of 2012, she was living in a new property, of which she was very proud. She also felt more secure there. She had furnished the house with second-hand items from car boot sales and a local second hand shop. Because of the property's situation, it could not be 'found' by doorstep lenders. She was also in a new relationship, which had significant psychological and financial benefits. She described how her new partner cooked for her family, which had reduced her costs considerably (e.g. £20-30 less on food shopping).

### **e) Mentor relationship**

The mentor established a good rapport with the householder. The mentor's only concern was that he could not offer more practical help. However, the householder seemed to be on the right path anyway, and the mentor was able to offer plenty of encouragement. When asked what impact the mentor thought the sessions were having, he commented:

I asked the householder for her own view of the project and she was very positive and appreciative about the help and encouragement she was being given. She commented that her sister would benefit from the project if only she would participate. On my way out she thanked me for coming to see her, which made me pleased. I suspect these sessions have a social element to them, in the respect that she enjoys hosting visitors. It is probably too early at this stage to determine exactly what impact the sessions are having, but the early signs are positive. However, it is clear that many of the householder's issues were already in the process of being resolved anyway.

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