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CREDIT EMANCIPATION:

How salary-linked lending can help turn around disadvantaged places

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About Our Partners

Salary Finance is a business with a social purpose, bringing together expertise in financial technology with a desire to do good.

Salary Finance partners with employers to offer a range of salary-linked employee benefits designed to improve their financial wellbeing. They do this by helping people save each month, borrow sensibly and offering finance tips and tools.

In 2018 Salary Finance was awarded Business in the Community's Responsible Small Business of the Year.

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The ResPublica Trust (ResPublica) is an independent non-partisan think tank. Through our research, policy innovation and programmes, we seek to establish a new economic, social and cultural settlement. In order to heal the long-term rifts in our country, we aim to combat the concentration of wealth and power by distributing ownership and agency to all, and by re-instilling culture and virtue across our economy and society.

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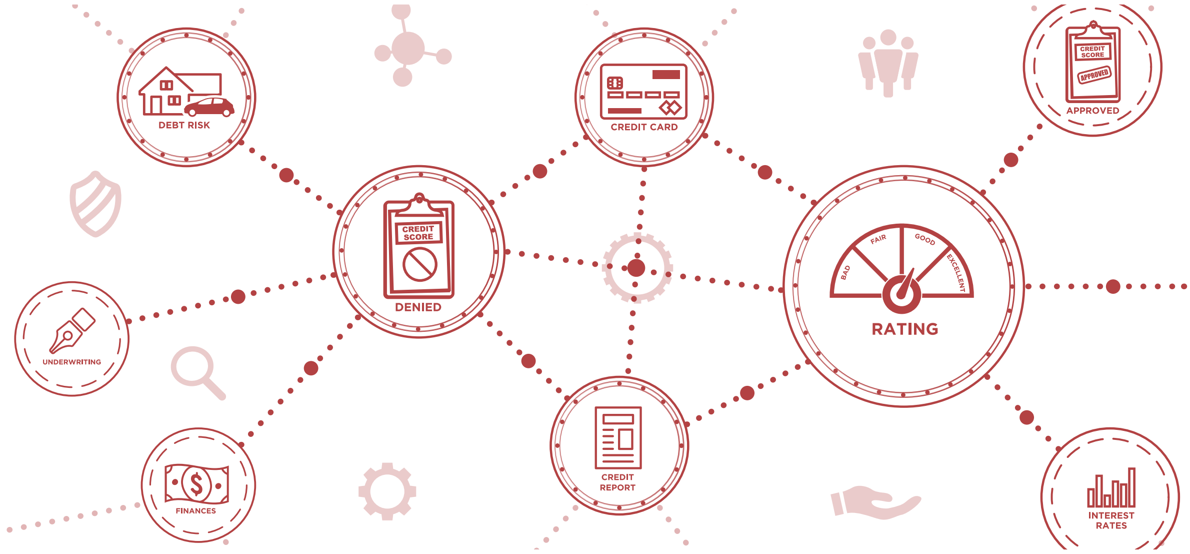


Executive Summary

It is in the nature of disadvantage that it coalesces and compounds in places and communities. If unaddressed it grows and expands, limiting the lives of not just the present populace but also the future generations who will live there. Debt and the cost of financing it is one crucial mainstay of generational place-based disadvantage. What we advocate in this report is that those employers who run the public or the private sector in such places can make a crucial difference not just to their employees but also to their places of work if they initiate salary-linked lending schemes that can offer the greatest amount of interest relief on debt. As this report shows a drop of two-thirds in the average cost of interest charged for debt can have transformative impacts on places as well as people.

And places are suffering because people are still subject to penal levels of debt. A decade on from the financial crisis many people in the UK are continuing to feel a squeeze on living standards. Real wages have struggled to keep ahead of inflation while individuals and households have once again become increasingly dependent on unsecured consumer credit.[1] Borrowers are already displaying signs of financial distress and there is mounting evidence that money problems are having a negative impact on the nation's mental health, as well as workforce productivity. A quarter of the UK workforce are, to some extent, experiencing financial insecurity[2] which is contributing to the loss of 17.5 million working hours, across both the public and private sector, as employees take time off due to financial stress.[3]

Too many people are struggling to manage their day to day finances, unable to plan or save for tomorrow. While the ticking 'timebomb' of rising debt and interest rates threatens to make many, without any assets to offset loans, more vulnerable to income shocks.[4] There is a growing problem with consumer credit, and particularly higher cost credit, which is propping up household spending. In the UK over three million consumers with lower credit ratings are forced to use more expensive forms of high-cost credit - including payday loans, overdrafts, rent-to-own, guarantor loans, store cards and home collected credit – often to pay for necessities rather than luxury goods and services.[5]

Those excluded from the mainstream credit market are disproportionately concentrated in more deprived places where problems of low income and in-work poverty are widespread. Consequently, communities with people on lower income face a poverty premium of higher costs for goods and services, including insurance, energy bills, and credit.[6]

This report makes the case for a place-based approach to building credit. We argue that improving aggregate credit scores at the local authority level can help to address the problems of unaffordable credit, financial exclusion, indebtedness and in-work poverty that are negatively affecting individuals and communities in the UK.

In addressing how local credit building strategies can help individuals and households take control of their financial lives, we focus on the role that both public and private sector employers can make in helping to turn around deprived communities. We examine the potential of 'salary-deducted lending' – a scheme where employees can apply for loans to be delivered through their employer's payroll mechanism – as a more affordable option to other sources of credit, such as bank loans, credit cards or payday lenders.

We outline how salary-linked lending and savings alongside financial education can form part of a broader set of place-based solutions to help employers and employees make local communities more productive and prosperous.

THE ECONOMIC CASE

Poor credit ratings are strongly correlated with a range of socio-economic variables including low employment rates, lower earnings, poor social mobility and most strongly correlated with areas of high deprivation. Consequently, and not surprisingly, poor credit is disproportionally concentrated in our most deprived communities, since the factors that determine area deprivation are also very important determinants of credit scores.

Although the relationship is not directly causal, this strong relationship between socio-economic indicators and the distribution of credit ratings suggests that there is potential for improving the social and economic characteristics of an area by upgrading aggregate credit scores. An improvement in a local authority's aggregate credit rating, from the bottom 10 percent to the middle of the credit score distribution, would equate to improving median weekly earnings by £36 (just over 9 per cent), an improved employment rate of around 3 percentage points, and an increase in home ownership of 6 percentage points.

The expansion of salary-deducted lending in the UK economy, as a new source of consumer finance, has the potential to substitute for other forms of lending, at substantially lower rates of interest. A shift of £10 billion of lending - about 5 per cent of total consumer debt - from other forms of credit to salary-deducted loans would reduce debt service costs by around £2 billion. This is based on a plausible working assumption (Baker and Kumar, 2018) that customers switching from other forms of credit to a salary-linked loan save about two-thirds of the interest costs which they would otherwise have paid (i.e. 9.9% compared with 29.7% APR, although some payday lenders charge 1500 per cent APR). This figure is significantly greater than the £200m savings per year which the Financial Conduct Authority (FCA) aim to achieve with their current proposals to further reform the high-cost credit market.

These £2 billion savings would increase borrowers' disposable income leading to an increase in consumer spending of around £1 billion, an increase in GDP of around £1.5 billion, an improvement in the public finances (tax receipts net of public spending) of £600 million, and the creation of 53,000 full-time equivalent jobs.

An expansion of salary-deducted lending has the potential to reduce regional inequalities as well as reducing wealth inequalities between households by helping users to save money and bridge capital to mortgages and pensions. The savings benefits are strongly progressive to those households towards the bottom of the wealth distribution.

A PLATFORM FOR PLACE-BASED STRATEGIES

Building financial resilience by increasing credit scores at the neighbourhood or local authority level can form part of a place-based strategy that can help to turn around disadvantaged communities. By connecting residents to comprehensive credit building resources, products and financial education services places can seek to uplift the average credit rating of a given area. This would allow less money to be spent on servicing debt and more to circulate within households and local economies, ensuring that 'income inequality' does not become an unsustainable cycle of debt and 'expense inequality', whereby poorer people pay more for basic goods.

This would require a 'localised' approach to commissioning debt advice and other financial capability services to allow areas to work with community organisations, co-design services and provide local flexibility to identify and respond to local need. This approach should also include education institutions. This would help target young people, who are amongst the most financially excluded and least financially capable members of the population[7], with measures to provide an environment that reduces their exposure and vulnerability to poor credit bad money managing habits.

There are few instances in the UK of a whole-place approach to credit building and financial capability. Newham's MoneyWorks programme is one example of an area-based intervention that aims to tackle the associated problems of indebtedness and poor credit. In the US, the City of Boston is currently undertaking a whole-place approach to the deep structural problems associated with poor credit rating. Boston Builds Credit is an initiative that aims to move a third of the City's residents from a poor to prime credit rating.

Freedom from high-cost credit and indebtedness for the most vulnerable citizens in our most disadvantaged communities could be achieved with a whole-place approach to credit building and financial education. This would require an area-based strategy to target priority groups with coordinated and effective measures to both combat the effects and prevent the causes of debt. It would also necessitate the integration of existing services, including public, private and community-based resources to build a single system with multiple points of access that can:

- **Engage employers in workplace action** by encouraging financial education in the workplace and the introduction of salary-deducted lending to extend affordable credit to employees who otherwise would only qualify for high-cost forms of borrowing, which can adversely affect their individual wellbeing and workforce productivity.

- **Involve, support and integrate community-based organisations** that already provide financial capability and asset building programmes and, in some cases, credit building services, as part of a whole-place approach.

- **Integrate financial education and credit building into services for young people** including all further and higher education institutions to develop, and where appropriate, co-design information, guidance and advice to effectively target young people.

- **Provide credit building for small businesses and self-employed people** to boost levels of entrepreneurship in deprived areas and improve local economies. Business support services and local investment vehicles for small businesses should seek to integrate this credit building function into their operations.

RECOMMENDATIONS

Building good credit will not solve all financial difficulties or eradicate the root cause of inequalities which contribute to financial exclusion and indebtedness. However, by focusing on the problems of poor credit it is possible to build the capability to manage finances more effectively and improve access to more affordable loans. And unlike many aspects of inequality, improving credit is relatively straightforward to achieve if certain habits and behaviours are adopted.

Given the geographical concentration of poor credit and indebtedness we recommend that:

1. **All local authorities should take a place-based approach to credit building.**

2. **All public-sector employers should adopt salary-deducted lending and savings systems and promote financial education in the workplace.**

3. **The public sector should seek to lever the benefits of salary-deducted lending by including this as an indicator of social value in their assessment process for public procurement.**

4. **Local Government and Local Enterprise Partnerships should use their convening power to encourage private employers to adopt salary-linked lending.**

5. **Government should explore the benefits of an area-based credit building pilot.**

6. **Government should provide greater capital for fair lenders like Credit Unions and Community Development Finance Institutions.**

7. **Government should provide a visible policy lead on this agenda.**

8. **The Money Advice Service should seek to devolve the commissioning of resources for debt advice to local authorities and Metro-Mayors.**

9. **The Money Advice Service should consider the introduction of Kite Marks to standardise financial advice and guidance.**

10. **All education institutions should embed financial education and advice as part of their pastoral care, and where appropriate their curriculum.**

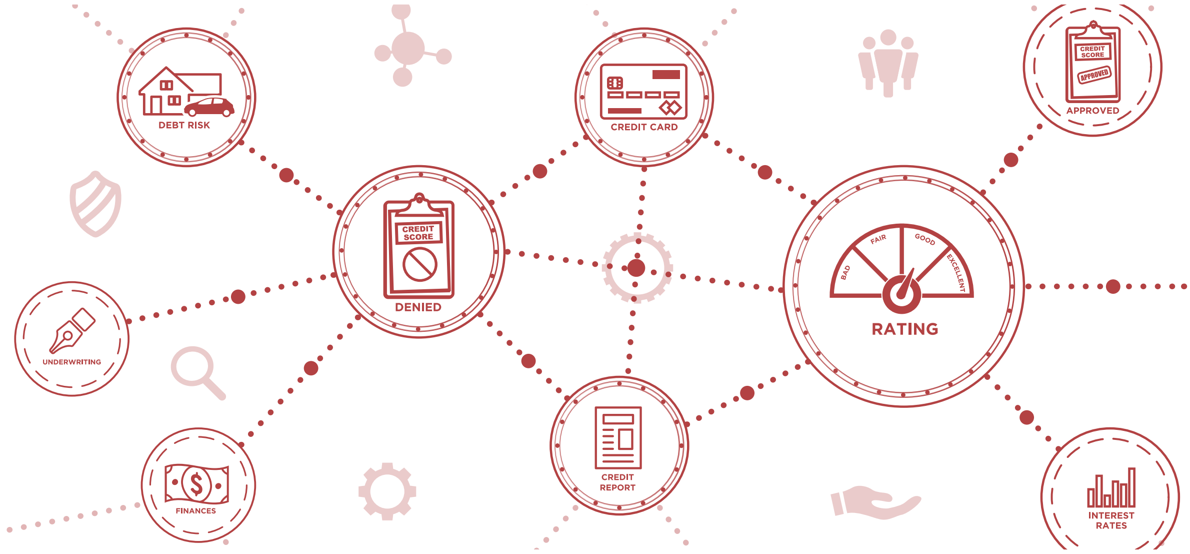
1. Introduction

This report makes the case for a place-based approach to the problems of high-cost credit. We argue that credit building programmes, which improve aggregate credit scores at the local authority level, can help to address the problems of unaffordable credit, payday loans, financial exclusion, indebtedness and in-work poverty that are negatively affecting individuals and communities in the UK.

In addressing how local credit building strategies can help individuals and households take control of their financial lives we focus on the role which both public and private sector employers can make in turning around deprived communities. We examine the potential of 'salary-deducted lending' – a scheme where employees can apply for loans to be delivered through their employer's payroll mechanism – as a more affordable option to other sources of credit such as bank loans, credit cards or payday lenders.

We estimate the potential economic impact and the beneficial effects it can have by:

- Enabling employees to spend less money on high-interest repayments, thereby improving their financial situation, allowing them to spend more on local goods and services, and to contribute to savings and other investments, such as pension plans.
- Enabling employees to more effectively manage their own finances, through consolidating debt (from other higher-interest sources) providing more affordable repayment terms and financial education, thereby improving individual wellbeing, mental health, and workforce productivity.
- Upgrading the average credit score of deprived local areas, potentially driving other economic improvements by reducing indebtedness and raising the purchasing power of the UK's most financially challenged communities to boost local economies.
- This report provides a platform for salary-linked lending, savings and financial education as part of a broader set of place-based solutions to help employers and employees make local communities more productive and prosperous.



2. The Problem: Poor Credit, Bad Debt and Low Savings

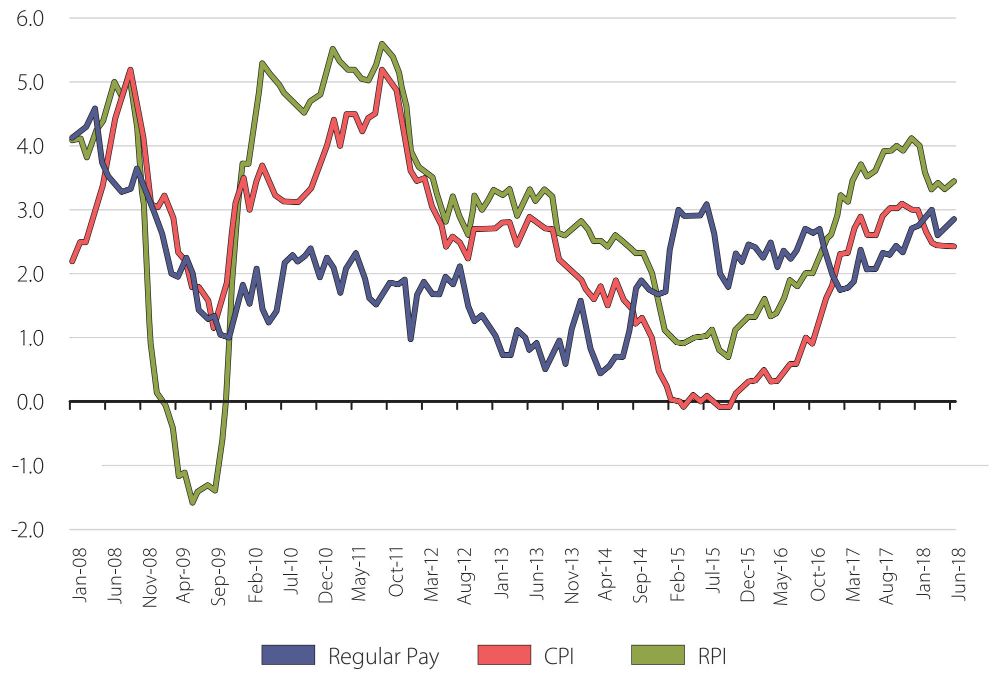
2.1 THE CONDITIONS FOR RISING DEBT AND LOW SAVINGS

Ten years on from the financial crisis the UK economy continues to grow at a stable but sluggish pace. The UK's current employment rate of 75.3 per cent is the highest since 1971, and unemployment, at 4.3 per cent, is at the lowest level since 1975. However, the low level of growth in the UK economy and improved labour market performance has coincided with the rise of increasingly insecure and low-wage employment. Wage growth has so far been the missing piece in the UK's post-crisis recovery. While the UK economy expands, real wages have struggled to keep ahead of inflation. Despite a recent increase in average earnings growth, which outstripped inflation for the first time in a year, wages continue to perform below pre-crisis levels and compare poorly with our European counterparts (See Figure 1).[8]

Many people in work have felt a squeeze on living standards, particularly lower-earners, and this has coincided with a return of easy consumer credit. Although banks reined in consumer lending following the financial crisis, unsecured consumer credit has risen since 2010. By 2016 rates of growth had returned to pre-crisis levels of about 10 per cent.[9] This rate of growth has moderated from its peak to 8.5 per cent in July this year although it remains well above growth in incomes (See Figure 2).[10] Last year unsecured credit climbed to a record high of more than £205 billion[11] - pwc said its own measure showed consumer debts rising above £300 billion.[12]

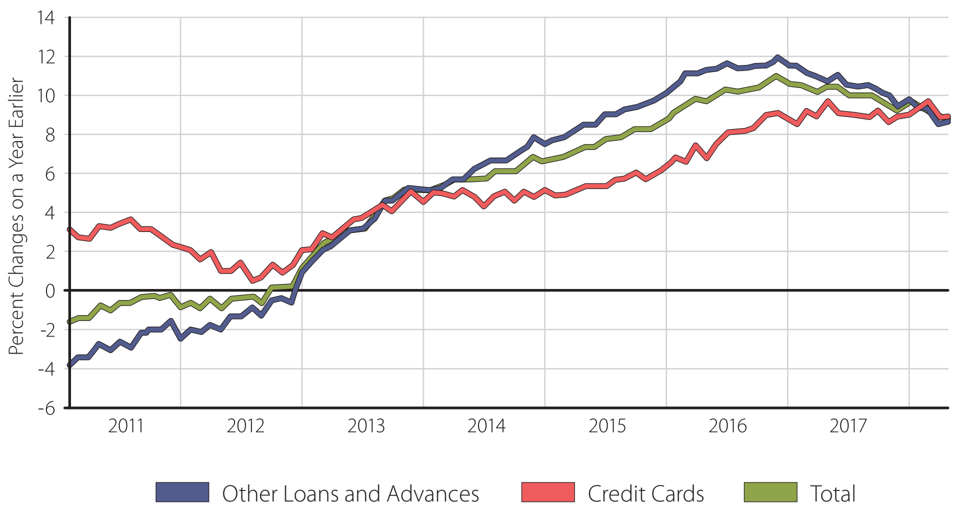
Banks are pushing more aggressively into unsecured lending to boost profits with a rise in riskier practices, such as long interest-free periods on balance-transfer credit cards. The Bank of England has expressed concerns that lending standards have become too lax and that many people may find themselves overstretched financially.[13]

Figure 1: Annual % Change in Regular Pay (excluding bonuses) and Inflation (CPI & RPI)



Source: ONS

Figure 2: Consumer Credit Growth Rate



Source: Bank of England[14]

Although households in the UK have become increasingly dependent on available consumer credit, not all can access mainstream finance. Those with lower credit ratings, including young people and those who move home frequently, are forced to use more expensive overdrafts or payday loans. One source estimates that as many as three in four working people are taking out at least one payday loan per year.[15]

This level of dependency has not only contributed to rising consumer debt but also a collapse in savings. In the UK the amount being set aside as savings has now slipped to just 1.7 per cent of disposable income, the lowest level on record.

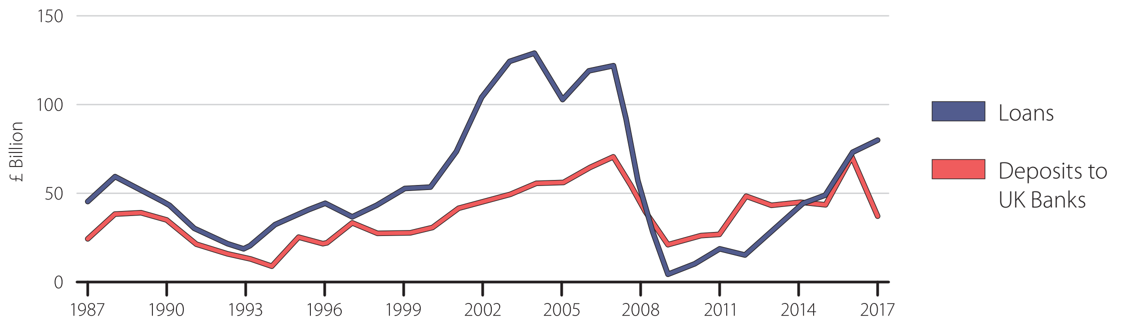
2.2 HOUSEHOLD SPENDING

The prospect of rising interest rates, as income growth remains low, raises the spectre of another debt-bust, given the credit 'surge' which has lifted overall household debt (including mortgages) towards £1.9 trillion.[16] According to recent research by the Office of National Statistics, British households spent around £900 more on average than they received in income during 2017, pushing their finances into deficit for the first time since the credit boom of the 1980s.[17] The shortfall amounted to nearly £25 billion, with the overspend mostly paid for with borrowed money and by running down savings.

British household finances also slumped from being among the most solvent in the 1990s to being among the most indebted compared with households in other major Western countries. The deficit among UK households, equivalent to 1.2 per cent of GDP, contrasted with a surplus in France equivalent to 2.7 per cent of GDP and a surplus equivalent to 5.1 per cent in Germany.

The ONS said households took out nearly £80 billion in loans in 2017, the most in a decade. But they deposited just £37 billion with UK banks, the least since 2011. Households accumulated more debt than they acquired in assets even when their investments in bonds, shares and pensions were included.

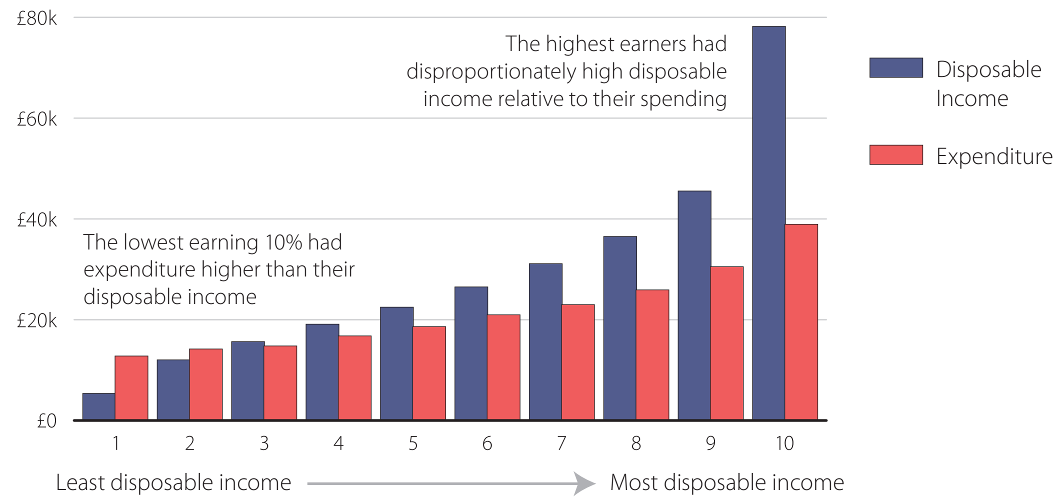
Figure 3: Households' Accumulation of Loans Compared with Deposits, 1987 to 2017



Source: ONS

According to ONS figures, the poorest 10 per cent of households spent two and a half times their disposable income, on average, in the financial year ending 2017 – while the richest 10 per cent spent less than half of their available income during the same period.

Figure 4: Income and Expenditure per Household in the UK, 2017



Source: ONS

However, the ratio of debt-to-household income is currently down on pre-crisis levels, due to the lower costs of servicing this debt. UK households spend 7.7 per cent of disposable income on debt repayments (including mortgages), down from 12.3 per cent at the start of 2008.

Analysis by the Resolution Foundation identifies that the increase in consumer credit appears to have been driven primarily by higher income households, who are better positioned to meet ongoing commitments, assuming interest rates do not reach or exceed pre-crisis levels. Average debt repayments rose as a share of income among the richest three-fifths of working-age households between 2016 and 2017 but fell for lower income households.[18]

Yet a significant minority of borrowers are already displaying signs of debt 'distress'. Looking across all working-age households, 6 per cent (1.2 million) were suffering from three or more measures of distress in late-2017; just over one-in-ten (2.2 million) working-age households reported being in arrears on credit payments over the past year.

Among the poorest fifth of working-age households almost half (45%) reported at least one form of debt 'distress' and 8 per cent were suffering at least three forms of 'distress' with the ability to pay for rent and repayment of unsecured debt the biggest concern.[19] Lower income groups are also more likely to lack the access to savings and credit that can provide financial resilience should they need to deal with an emergency. Of those in the bottom fifth, 37 per cent reported being credit 'constrained' – defined as being "put off" spending by concerns about not being able to access credit – compared with 28 per cent across the wider working-age population and 22 per cent in the top fifth.

In terms of debt-to-income ratios, one-in-ten (2 million) working-age households already sit within the 'at risk' group, with that figure rising to 19 per cent among the poorest fifth of working-age households. Interest rate rises will inevitably increase these proportions to some extent.

While the surge in consumer credit over the last year or so has been driven primarily by higher income households, lower income households bear a disproportionate burden of financial distress, due in part, to limited access to affordable credit.

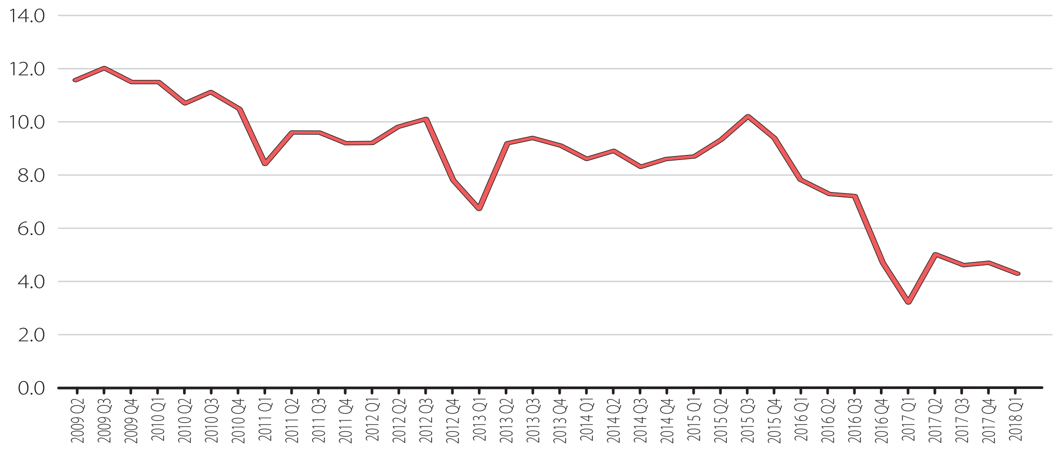
2.3 FINANCIAL RESILIENCE

According to the Lloyd's UK Consumer Digital Index 2018 there are now 8.5 million people (17%) who would struggle immediately if their income were to stop; this is 1.1m more people than in 2017. The 30-39 age group are 54 per cent more likely to struggle immediately compared to 2017. However, there are 1.3 million more people who could support themselves for three months or more, including 25 per cent more 18-24 year olds.[20] This suggests a growing divide in the population's financial safety net.

The ability to save for a rainy day is an important measure of financial resilience but the UK is currently facing something of a 'savings crisis' with customers draining ISA accounts and saving deposits at their lowest annual rate since the financial crisis, according to UK Finance.[21]

One key measure of savings, the households' saving ratio, highlights how saving levels in the UK have been declining steadily since 2010, as Figure 5 shows. This suggests a worsening scenario whereby those on the lowest incomes are likely to have the lowest savings and become both more susceptible to, and less able to overcome, the financial shocks or negative impacts that can be experienced as part of everyday life.

Figure 5: Household Savings Ratio[22]



Source: ONS

At the same time the savings gap between rich and poor in the UK is growing. Aviva's Family Finance Report has identified that low-income families had just £95 of savings and investments, excluding pensions, this winter (2017/18), compared with £62,885 among high-income families. This represents a widening savings gap which has grown by 25 per cent over the past year.[23]

Aviva also found that it is the UK's ageing workforce who are feeling most financially stretched, with one-fifth of people in their fifties and sixties currently unable to put aside anything for retirement. In addition, two-thirds of people aged 50-59 are failing to ramp up pension savings in the run-up to retirement, despite 51 being the average age they expect to reach their peak earnings. Four million older workers have not calculated how much they will need in retirement, which is thought to mean that many of their saving habits are not reflecting the reality of their situations.

2.4 FINANCIAL EXCLUSION

There is still a sizable minority of the adult population that lacks access to the most basic financial services, such as a bank account, to manage day to day financial transactions. Over the past 10 years the total number of people that do not have access to any form of bank accounts had declined (from 3 to 1.5 million) but the recent trend has seen a rise to 1.7 million adults who are unbanked.

This group, which in public policy terms have been defined as the 'financially excluded', includes a wide range of people at various stages in life, who are more likely to face financial distress. According to the evidence submitted to the Select Committee on Financial Exclusion,[24] around 8 per cent of 18 to 19-year olds do not have a bank account compared with 0.7 per cent of the overall population,[25] while low credit ratings have caused financial problems for 1 in 5 young people.

Other age groups can be affected in different ways. The closure of bank branches and the move towards digital platforms has a particular impact on older and more rural populations. An estimated 600,000 older people are financially excluded, with 93 per cent of those aged over 80 having not used internet banking and a third of this age group never having used a cash machine.

A single measure of exclusion is difficult to categorise but there is a high correlation between financial exclusion and those living in poverty, including: those on low-wages, the unemployed, single parent families and those with a disability.

Issues of identity verification (passport, driving licence) are a major reason why people are unable to open bank accounts or access wider financial services including mainstream credit. In addition to younger people and low-income groups this can particularly affect ex-offenders and prisoners; the homeless; those fleeing domestic abuse; migrants and refugees.

According to the Lloyds Bank UK Consumer Digital Index 2018, 44 per cent of people without a bank account struggle to cope with their finances, compared to 14 per cent of the overall population. Financial exclusion is thus contributing to the poverty premium, whereby the poor pay more for goods and services, including household bills and credit, which reinforces a vicious circle of indebtedness.

2.5 ACCESS TO CREDIT

Many who are deemed to be financially excluded are unable to access affordable credit and forced to turn to high cost lenders; although it is not just the excluded who fall into this category since many with bank accounts also struggle due to poor credit ratings.

The regulatory crackdown on the UK's payday loan market — which targets consumers with poor credit ratings and offers short-term, high-interest loans — put into effect rules to ensure customers would never pay back more than double what they had borrowed, as well as other caps on costs and fees. This has seen the number of lenders drop from 400 in 2014 to 144 by 2017, with Wonga, Britain's biggest payday lender, entering administration in August 2018 following a surge of customer compensation claims.

The Financial Conduct Authority (FCA) estimate that various forms of high-cost credit - including payday loans, overdrafts, rent-to-own, store cards and home collected credit - are used by over three million consumers in the UK, some of whom are the most vulnerable in society, unable to secure any other form of credit.[26] Younger age groups are particularly affected by this, with one survey suggesting that 40 per cent of people between the ages of 25 and 35 were turned down for access to bank credit in the past year.[27]

Those left without a choice are often faced with using high-cost credit to pay for basic necessities rather than luxury goods and services. In 2013 Christians Against Poverty found that of those who had taken out a payday loan, 77 per cent had used it to pay for food, 52 per cent for gas or electricity and 36 per cent for rent or mortgage payments.[28]

Citizens Advice have reported a 45 per cent drop in consumer problems related to payday loans since 2014. However, they have over the same period seen a rise in wider problems relating to household bills including utility, council tax and rent arrears. They estimate that British households owe almost £19 billion to essential service providers and Government.[29] The extra costs associated with unaffordable credit is part of the poverty premium and cycle of indebtedness discussed above.

While mainstream banks continue not to lend to sub-prime customers there will always be high-cost credit. However, the FCA are pushing for further regulatory intervention with a cap on interest rates and fees to be extended to other parts of the market.

2.6 FINANCIAL CONCERNS AND WELLBEING

Financial concerns are impacting on the nation's mental health. Responding to a recent survey by the Money Advice Service, more than half of UK adults (55%) said their own mental health or well-being, including lack of sleep and feelings of anxiety, was being affected by worries over money.[30]

Worrying about how to make ends meet, going without essentials, fearing visits from bailiffs, experiencing relationship difficulties that often stem from financial worries, all take their toll. People commonly feel guilty, ashamed and frustrated by financial difficulties, and in some cases this can develop into or worsens existing mental health problems.

These financial worries are having an impact on the workplace. A report by the Money and Mental Health Policy Institute found that a quarter of the UK workforce are, to some extent, experiencing financial insecurity with one in five employees (21%) reporting that they are just about managing financially, while a further 5% say they are finding things difficult.

Almost half of employees (45%) report at least one sign of poor mental health that could affect their ability to function normally at work and in daily life. One in seven (14%) employees reported struggling to concentrate at times due to stress or other worries, and nearly one in six (16%) report losing sleep more than usual in the last four weeks. Nearly half (45%) of all working days lost to ill health were a result of stress in 2015/16.[31]

Anxiety related to money problems can therefore spill over into an absence issue, with 8 per cent of the UK workforce admitting to taking time off work due to financial stress. This results in an estimated loss of 17.5m working hours, equating to a £120.7 billion loss for the UK economy.[32]

These symptoms of poor mental wellbeing are prevalent across all types of employer organisations, although a CIPD survey identifies that 30 per cent of employees in the public sector are having financial problems which affect their workplace performance, compared with 25 per cent in the private sector.

The relationship between financial concerns, mental health and productivity suggests there is a benefit to employers in helping staff to improve their financial capability and wellbeing.

2.7 FINANCIAL CAPABILITY

Most people in the UK are managing their money day to day but around four in ten of the population are not coping as well as they might.[33] There is also evidence that financial capability in the UK is declining. The 2015 UK Financial Capability Survey, undertaken by the Money Advice Service found that:

- 22 per cent of people could not read the balance on a bank statement (an increase from 9% in 2005)
- 40 per cent of people do not understand the impact of inflation on the real value of money (up from 21% in 2005).

Confidence in managing financial products or services is especially difficult for lower income groups, those with a greater reliance on benefits and also 'young adults' (18-24 year-olds).

Understanding financial capability is complex. There is no single definition since capability is driven by a combination of factors including knowledge, skills, and resources, as well as behavioural factors such as attitudes and motivations. One consequence is the many different survey findings about financial capability undertaken by various organisations.

In 2015 the University of Bristol's Personal Finance Research Centre undertook analysis of the financial capability measures contained in the 2010 to 2012 Wealth and Assets Survey for the Office of National Statistics. This identified six dimensions of capability which were measured on a scale from 0 to 10, see Table 1.[34] The research found that very few people scored poorly on 'managing money' and 'making ends meet'. While 'planning ahead' (for example with savings and pensions) and 'staying informed' carried a relatively low average score. There is, however, considerable variation between and within dimensions due to the different distributions of scores across the population.

There is a small difference between the sexes, with men scoring slightly higher in terms of 'staying informed' and women scoring better for 'managing money'. Variation by age is more striking with 16 to 24 year olds scoring considerably lower than other age groups across all measures with the exception of 'choosing products', where the 65+ age group fare worst. Capability on the 'making ends meet' and 'controlled spending' dimensions increases steadily with age across the population.

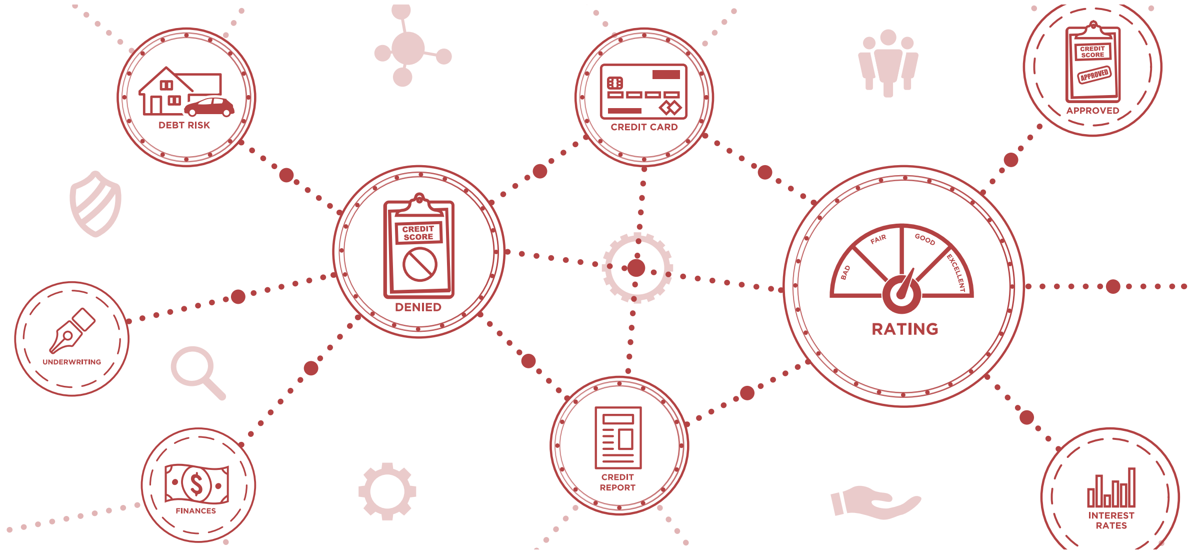
Financial capability also varies by education level. Markedly low scores are found amongst those without qualifications while financial capability increases steadily for each group with higher qualifications. Those with degrees score higher across all dimensions reflecting their greater earning power and resources.

All other things being equal, those with higher incomes, higher educational attainment and those from a higher social grade will fare better. This evidence suggests that there may be different ways to targeting the population at risk in order to improve capability.

Table 1: Mean financial capability scores by dimension: Great Britain 2010 to 2012

Dimension	Overall Mean	Quartiles	Mean
1. **Making ends meet:** living within ones means, keeping up payments. Having more money in savings than owed in credit.	7	Low	4.2
		Low-med	6.9
		Med-high	8.5
		High	9.6
2. **Organised Money management:** knowing how much to spend day to day. Knowing one's bank balance within 1 or 2 pounds.	6.7	Low	3.9
		Low-med	6.2
		Med-high	7.7
		High	9.3
3. **Staying informed:** Keeping up to date with changes in the wider economy like inflation, interest rates and taxation.	3.2	Low	< 0.1
		Low-med	2.7
		Med-high	4.6
		High	7.2
4. **Planning ahead:** Making provision for future expenditure from current income. Having money saved for a "rainy day".	2.3	Low	0.5
		Low-med	1.7
		Med-high	2.9
		High	5.1
5. **Controlled spending:** Preference for longer-term financial security over current spending capacity.	6.7	Low	4.5
		Low-med	6.5
		Med-high	7.6
		High	8.9
6. **Choosing products:** Sourcing information, shopping around, consulting comparison websites.	6.6	Low	1
		Low-med	6
		Med-high	8
		High	10

Source: Wealth and Assets Survey - Office for National Statistics (2015)



3. The Opportunity: Building Credit

Many individuals and households in the UK are already displaying signs of financial distress and there are indications that this situation could worsen. Too many people are struggling to manage their day to day finances, unable to plan or save for tomorrow. All the while, the ticking 'timebomb' of rising debt and interest rates threatens to make many, especially those without assets to offset loans, more vulnerable to income shocks.

There is a growing problem with consumer credit and particularly higher cost credit, which is propping up household spending. At the same time there is evidence that many UK consumers do not have the skills and knowledge to understand and make an informed choice about financial products and services. Promoting financial capability through credit building is therefore a powerful strategy to help individuals take control of their financial lives. And unlike many aspects of inequality, anyone can improve their credit. A low-income person can have a perfect credit score as long as they engage in certain habits and behaviours.

3.1 WHAT IS CREDIT BUILDING?

In today's world a good credit rating is crucial. It is a basic truth that matters to national economies as much as it does to private citizens and consumers. A lack of access to affordable credit due to poor credit ratings leads to higher borrowing costs for individuals, families and small businesses that must rely on high interest, and often predatory financial products, to meet their needs. A poor credit score inflates costs and impedes the ability to save. It can make the difference to building assets, often across generations, such as buying a home or starting a business. It is a barrier to wealth creation, economic inclusion and social mobility.

Credit building requires the existence of at least one positive trade line. This is a record of activity for any type of credit extended to a borrower and reported to a credit reporting agency. To build credit, a consumer must use credit regularly and make all payments on time. Credit building is by definition the opening and successful management of financial products over time. It is the key to building and maintaining a good credit history and accessing more affordable repayments.

HOW CREDIT SCORES WORK

Credit scores in the UK are calculated by one of three credit reference agencies – Experian, Equifax and Call Credit – all using a shared database but different scoring systems and scales. Consequently, consumers have different credit scores at each rating agency.

Put simply a credit score is a 3-digit number that shows how likely a person is to repay credit which effects their likelihood to be accepted for credit and the terms of loans they will be offered. It is based on data from past credit history (including; credit cards, store cards, personal loans, paying for something in monthly instalments such as a new car or sofa, some utility bills, overdrafts, mortgages & mobile phone contracts), particularly an individual's history of paying back previous loans and credit.

A higher credit score indicates a lower risk and means that an application for credit is more likely to be accepted, and more likely to be offered cheaper rates of interest. Conversely a low credit score indicates a high risk. This might result from defaulted payments on previous debt or evidence of a County Court Judgement, which indicate greater risk and will lead to a higher rate of interest or a rejected credit application.

Having no previous credit history also makes it harder to get credit, because it is difficult for lenders to judge the risk of defaulted payments. Defaults on debt, County Court Judgements and Bankruptcy are generally the factors that have the biggest negative impact on credit scores. Other factors that could harm a credit score, include: frequent change of address; making several applications for credit in a short period of time; frequent use of payday loans; and already having a large amount of existing credit (e.g. high debt relative to income level) or currently using a large amount (over 80%) of the total credit card limit.

It is therefore possible for any consumer to improve their credit rating by attending to the details of their credit history and the factors that influence this, for example:

- Registering on the electoral roll
- Correcting mistakes on credit files
- Making loan repayments and paying bills on time
- Private renters can use a third-party partner like Credit Ladder, Canopy, and others, to evidence regular rental payments
- Removing any links to another person who may have a poor credit score e.g. joint accounts

- Checking for fraudulent activity on credit files
- Paying down high levels of existing debt and county court judgements
- Getting a credit building card to evidence monthly credit payments that build up credit history.

Financial information and advice is available via different sources including the Government's Money Advice Service. There are various on-line tools and products, some of which are free, and the main credit agencies also offer a one-month free trial membership to help people improve credit scores. However, navigating a way through this financial landscape is not straightforward, especially for those lacking the financial skills or motivations to address their situation, and one-to-one support often comes at a cost which is not affordable to most people with low credit ratings.

3.2 BUILDING CREDIT IN THE WORKPLACE

The workplace can provide an opportunity for building credit and improving financial capability. Helping employees with debt management can provide long term benefits to the wellbeing and productivity of the workforce, providing a win-win outcome for employers and employees.

An increasing number of larger employers in both the public and private sector are starting to offer financial health and wellness programmes to employees. This can include financial education and training as part of their Human Resource Development functions. BT have introduced financial wellbeing benefits to employees, including the ability to borrow against salaries. Gateshead Council have added financial literacy to their induction and training programmes.

In the US companies are providing personalised advice to thousands of employees, developing financial wellbeing programmes and getting employees to defer more of their salaries to retirement savings. The insurance giant Prudential has launched a $5 million partnership last year with the Aspen Institute, a think tank, to create new financial wellness tools for workers and a road map for employers. While the retailer Walmart, the largest private employer in the US, recently added a feature that allows employees to get advances against earned income, so they do not have to use expensive payday loans.

3.3 FINTECH AND SALARY-DEDUCTED LENDING

New innovations in technology are contributing to increasing financial inclusion on a global scale. Since 2011 when the World Bank produced its first Global Findex Database, 1.2 billion people have obtained personal bank accounts, through the availability and take-up of mobile technology, smart phones, online banking and apps.[35] Financial technology is part of the mix driving this inclusive growth, helping to meet the needs of underserved populations. Alternative banking methods such as 'salary links', whereby loans are repaid from employee's salaries via their employer's payroll systems, is one of the fastest growing areas of the market, offering low-income workers easier access to more affordable credit via 'employer-sponsored' online platforms. This form of salary-deducted lending is increasingly popular in Europe and the US as well as developing markets such as Mexico and Brazil.

A recent report by Harvard's Mossavar-Rahmani Centre for Business and Government has shown that the use of FinTech products may also significantly reduce annual employee turnover, between 19 per cent and 28 per cent, saving employers millions.[36] In addition, these products lead to markedly superior loan performance, with default rates running at less than 20 per cent the rate predicted by credit scoring.

In the UK, many employers are currently offering salary-deduction loans including: Mitie; Carlsberg; Worldpay; Hays Recruitment; Allied Healthcare; Hackney Council; and Wrightington, Wigan and Leigh NHS Trust. However, the practice is not as developed or as widespread as it could be.

Salary Finance is a UK scale-up that uses financial technology to provide a salary-deducted lending platform for large employers.

THE SALARY FINANCE PLATFORM

Salary Finance is a rapidly growing UK FinTech business with a social purpose – recently winning the Business in the Community's Responsible Small Business of the Year. It brings together expertise in financial technology with a desire to do good, offering low interest credit and simple savings to employees as part of their benefits package.

Salary Finance has developed a technology platform, compatible with existing payroll processes, which is offered at no cost to the employer beyond a small amount of time to administer the scheme.

By partnering with large employers Salary Finance can offer their employees, who are often low-to-middle wage earners, a range of services. They can allow working people to consolidate their various loans and credit card debts through a single finance loan, which is then repaid through salary deductions. Savings can also be taken straight from payroll and deposited in an instant access account provided by the Yorkshire Building Society.

The average working person in the UK has unsecured debts of £4,000, while a typical quote for a traditional bank loan would charge interest of 22 per cent on that figure. Harvard's research concluded that Salary Finance charge 66 per cent less than customers would otherwise get in the market, saving employees over £600 on a £3,100 loan.

Organisations using Salary Finance can offer this platform as means to attract and retain staff. In a climate where real wage growth has been stagnant, employers can enhance salaries with a credit package that for those on lower wages is the equivalent of a 3 per cent pay rise. In addition, these salary-linked employee benefits are supported by meaningful financial education, including: debt management, budgeting, improving credit scores, and savings.

The mission is to move people out of debt and into savings. And in doing so, improve workforce productivity, as well as overall wellbeing.

Salary-linked loans are not provided on the basis of credit rating alone, but on the basis of affordability. Lending processes therefore take into account not only earnings but also outgoings including living costs and existing levels of indebtedness so a decision to lend is based on a person's ability to pay.

However, in working with employees to improve their financial wellbeing and capability and by reporting loan payments to credit bureaus the payment history on salary-deducted lending becomes part of the borrower's credit score profile in the future. Platforms like Salary Finance can therefore help borrowers build positive loan performance data with bureaus which can in turn help improve their credit rating.

4. The Economic Case: The Benefits of Affordable Credit

Here we examine the extent to which improving credit scores at the neighbourhood or local authority level could build financial resilience and help turn around disadvantaged communities. Firstly, we assess the relationship between credit scores and local economic indicators. We then quantify the local benefits of improving credit scores and thereby access to more affordable credit. Finally, we model the impact which a shift from other forms of consumer credit into salary-deducted lending could achieve in terms of lowering interest payments, boosting household incomes and increasing what might be spent in a local economy.

4.1 THE RELATIONSHIP BETWEEN CREDIT SCORE AND SOCIO-ECONOMIC INDICATORS

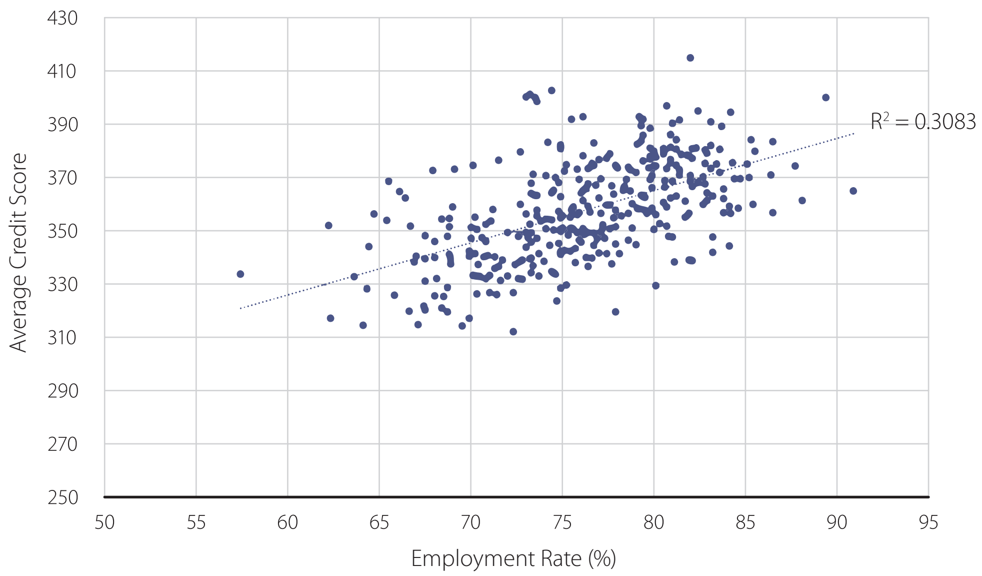
Our analysis, below, identifies the relationship between average credit scores and a range of socio-economic indicators by Local Authority District (LAD) including:

- Labour market indicators (e.g. employment rate, inactivity rate)
- The Social Mobility Index (SMI) and constituent indicators (e.g. median wages, house prices, educational attainment, nursery provision)
- The Index of Multiple Deprivation (IMD).

4.1.1 EMPLOYMENT, INACTIVITY AND EARNINGS

Credit ratings do not take into consideration employment status but there is nevertheless a positive relationship. The figure below shows a strong positive correlation, with an R-squared value of around 0.3.[37] This means that about 30 per cent of the variation in average credit scores between Local Authority Districts in England and Wales are accounted for by variation in employment rates. The direction of correlation is, as one might expect, a priori; a higher credit score for an area implies that the area is a better credit risk, and we would expect areas that are performing better, economically, to be a better credit risk.

Figure 6: Average Credit Scores against employment Rate for 16-64 yr olds, LAD, England & Wales



Source: Landman Economics, analysis of credit score and economic data at the LAD level

Conversely, and as one might expect, areas with higher credit scores tend to have lower areas of inactivity. However, the degree of correlation is not quite as strong, with about 24 per cent of the variation in average credit scores accounted for by variation in the economic inactivity rate.[38]

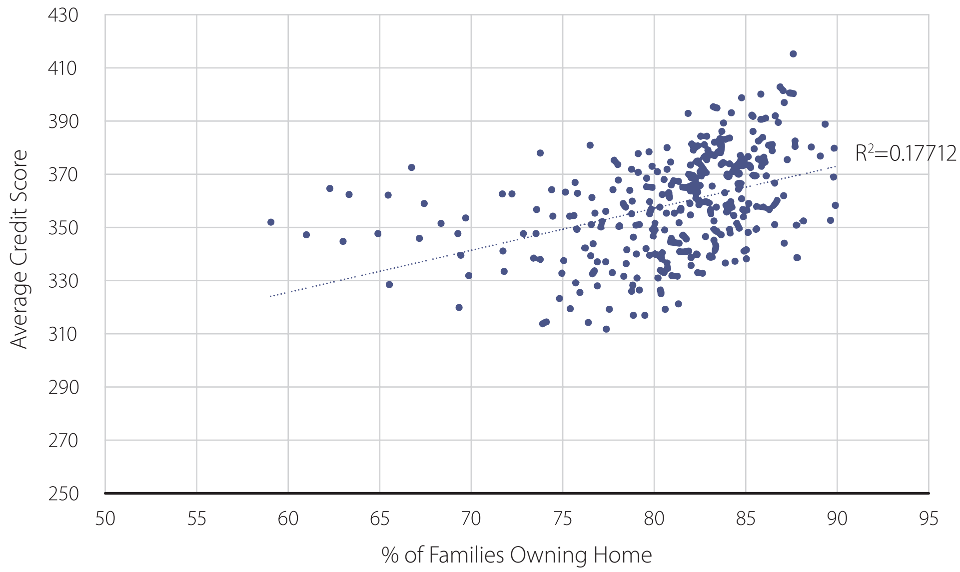
There is also a strong positive correlation between average credit score and the percentage of higher level occupations in the workforce; around one-third of the variation in average credit scores is accounted for by variation in the proportion of employees in managerial and professional occupations across local authority districts.

This finding corresponds to average earnings, where districts with higher earnings tend to have a better average credit risk (with an R-squared coefficient of around 0.23) and hence higher average credit scores.

4.1.2 HOME OWNERSHIP

The correlation between home ownership and high credit scores is not as strong compared to some of the other economic variables examined here (with an R-squared coefficient of around 0.18). To a certain extent, this weaker relationship is explained by a number of affluent local authorities with relatively high credit scores but relatively low levels of home ownership, particularly in inner London.

Figure 7: Average Credit Scores and Proportion of Families with Children Who Own Their Own Home in Local Authority Districts, England



Source: Landman Economics, analysis of credit score and economic data at the LAD level

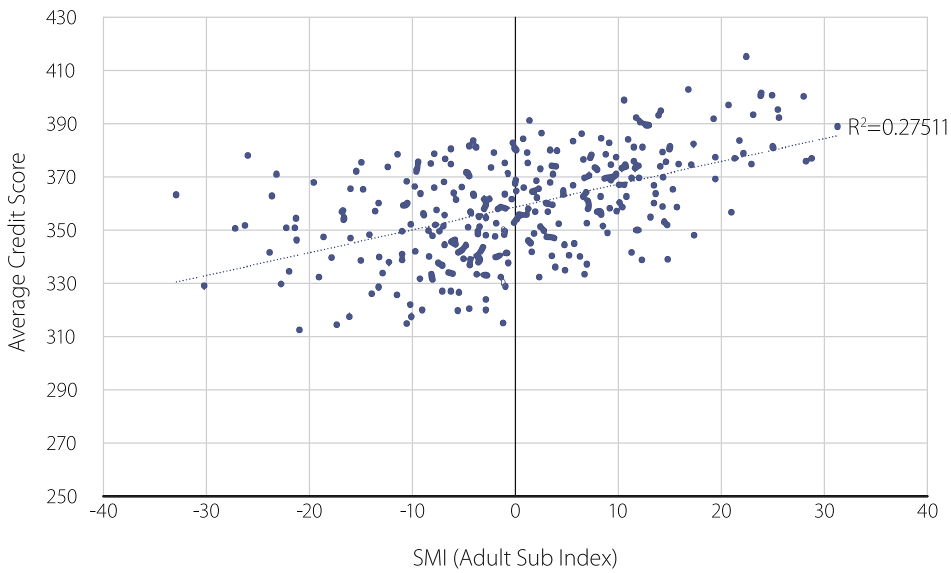
4.1.3 SOCIAL MOBILITY INDEX

The Social Mobility Index [SMI] ranks local authorities on the prospects of disadvantaged young people growing up in their areas (UK Government, 2017). The SMI uses a range of 16 indicators for every life stage – from the early years through to adulthood – and combines this into a single index of mobility.

There is some positive correlation between the SMI and average credit scores, but the correlation is not very strong, with an R-squared coefficient of less than 0.1. However, the relationship between average credit score and the adult sub-index of the SMI is much stronger, with an R-squared of around 0.28.

This is probably because the adult sub-index contains economic indicators (including professional and managerial occupations; median earnings and home-ownership[39]) which are more closely linked to the economic variables that determine individual credit scores, than the early years and school educational variables contained in the rest of the SMI.

Figure 8: Average Credit Scores Against Social Mobility Adult Sub-index, England



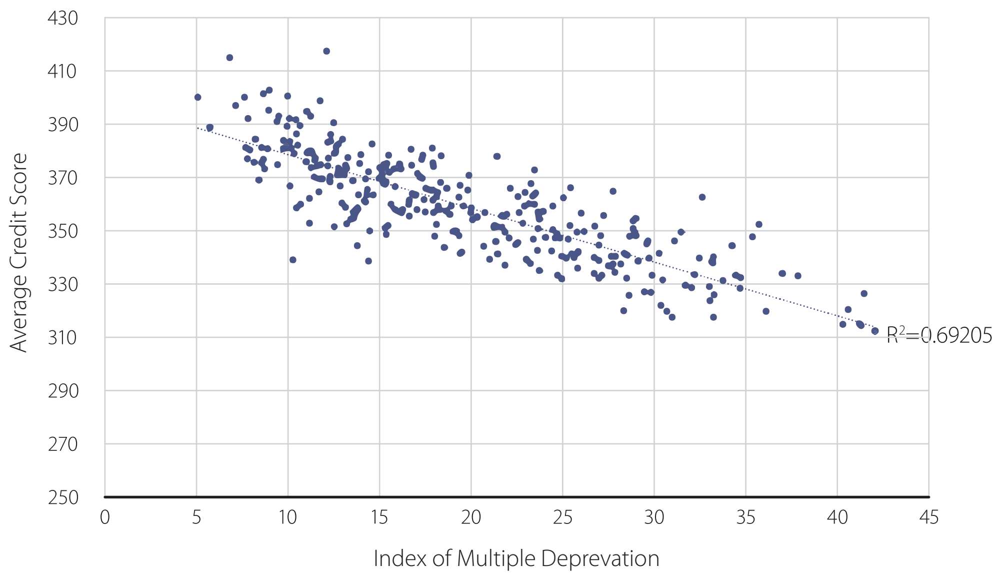
Source: Landman Economics, analysis of credit score and economic data at the LAD level

4.1.4 INDEX OF MULTIPLE DEPRIVATION

The Index of Multiple Deprivation (IMD) is the official measure of relative deprivation for small areas[40] (or neighbourhoods) in England. The IMD uses a range of different indicators across seven different domains (income, employment, education, health, crime, barriers to housing and services, and living environment) to measure the extent of deprivation in English neighbourhoods. Here we use average IMD scores for Local Authority Districts and compare them with the average credit score for each LAD.

There is a strong negative relationship – i.e. less deprived areas have a higher average credit score – with almost 70 per cent of the variation in average credit scores across local authorities accounted for by variations in deprivation. **This is the strongest correlation of all those analysed in this report, suggesting that the factors that determine area deprivation are also very important determinants of credit scores.**

Figure 9: Average Credit Scores Against Index of Multiple Deprivation, England



Source: Landman Economics, analysis of credit score and economic data at the LAD level

4.2 IMPROVEMENTS ASSOCIATED WITH AN UPGRADED CREDIT SCORE

The strong relationship between socio-economic indicators and the distribution of credit scores suggests that there is potential for improving the social and economic characteristics of an area by upgrading aggregate credit scores.

If a local authority could improve its overall credit score from the 10th percentile of the credit score distribution (i.e. 10% of the way up the distribution) to the median (the middle of the distribution), what kind of improvements might we expect to the local economy by a shift of this magnitude?

It should be noted that this is not a causal mechanism – it would be inappropriate to claim that an improvement in credit score, *by itself*, would lead directly to the other economic improvements. Rather, the results are indicative, suggesting the potential for improvement of a given area by an uplift in that area's credit scores.

Appendix B shows all 352 local authority districts in England and Wales ranked in terms of average credit score from the lowest (Blackpool) to the highest (Chiltern). On this basis, the local authority at the 10th percentile is Stockton-on-Tees, and the median local authority is Rother in East Sussex.

The table below shows the predicted values across a range of socio-economic indicators at the 10th percentile of the credit score distribution and the median of the distribution. In each case, the median LAD (ranked by credit score) performs significantly better than the LAD at the 10th percentile. For example, median weekly earnings are £36 (just over 9%) higher for LADs with median credit score than for a LAD at the 10th percentile, while the employment rate (16-64 year olds) is around 3 percentage points higher (around 75% in employment at the median credit score compared to 72% at the 10th percentile).

Table 2: Predicted values at 10th percentile and median of the average credit score distribution: selected economic indicators

Indicator	10th Percentile	Median	Difference
Weekly earnings	£ 382	£ 418	£ 36
Home ownership (families with children)	53.4 %	59.4 %	6 %
Employment rate (16-64 year olds)	72.1 %	74.9 %	2.8 %
Inactivity rate (16-64 year olds)	24.8 %	21.7 %	- 3.1 %
Proportion of employees in SOC 1 (professional) or SOC 2 (managerial)	23.7 %	28.4 %	4.7 %

Source: Landman Economics regression analysis of the relationships between credit score and selected socio-economic indicators.

Improving the aggregate credit score for an area would in theory enable more people to access more affordable credit leaving households with greater purchasing power which would in turn benefit local economies, boosting job growth and earnings.

Salary-deducted lending is one particularly effective mechanism that can both extend affordable credit to those who might not otherwise qualify and at the same time help improve their individual credit scores. As Baker and Kumar (2018) identified, 'salary linked' automatic repayment processes can provide more efficient, less costly and more inclusive liquidity and credit solutions for working families. For example, payroll lenders like Salary Finance,

> *"report loan payments by borrowers to credit bureaus and the payment history on the loan becomes part of the borrower's credit score profile in the future. This can help the borrower build positive loan performance data at the bureau which can help improve their credit rating".* [41]

4.3 MODELLING THE IMPACT OF A SHIFT FROM OTHER FORMS OF CONSUMER CREDIT INTO SALARY-DEDUCTED LENDING

Here we assess the potential impact of a shift from existing forms of lending to salary-deducted lending in terms of increases in the following economic variables:

- Consumer spending;
- Gross Value Added (GVA);
- Employment;
- Net fiscal balance;
- Savings.

In each case, the increase in economic activity is driven by a reduction in the interest payable on salary-linked loans compared to other types of consumer lending. Firstly, we calculate the potential size of the economic impacts in aggregate. We then estimate the impact of a shift into salary-deducted lending on GVA at the regional level, and the impact on household disposable incomes across the income distribution. Finally, we estimate the potential impacts on household saving across the wealth distribution.

4.3.1 AGGREGATE IMPACTS

By end of June 2018, the total outstanding stock of consumer debt for UK households (excluding mortgages and student loans) was approximately £213 billion.[42] Here we model the impact of a shift of £10 billion of lending out of other forms of consumer debt and into salary-linked loans – equating to about 5 per cent of total consumer debt. This requires assumptions about the reduction in interest paid on the debt.

Salary Finance uses the working assumption that customers switching from other forms of credit to a salary-linked loan save about two-thirds of the interest costs which they would otherwise have paid. Econometric analysis (Baker and Kumar, 2018) suggests that this working assumption is plausible. Therefore, we have assumed in our analysis that switching loans to a lender like Salary Finance will reduce interest payments by two-thirds.

Salary Finance currently offers loans at interest rates between 3.9 per cent and 19.9 per cent APR, with a representative rate of 9.9 per cent APR. We have assumed that the APR of the average salary-linked loan offer is 9.9 per cent and that this compares with an APR of 29.7 per cent (i.e. three times higher) for loans from other sources. This implies that a shift of £10 billion from other forms of lending into salary-deducted lending would reduce interest payments by (£10 billion x (29.7% - 9.9%)). **This is equivalent to a reduction of approximately £2 billion in debt service costs.**

Our estimates of the aggregate impacts are shown in table 3 below.

Using reasonable assumptions on the marginal propensity of borrowers to consume and save the extra disposable income arising due to the reduced interest payments on salary-linked loans, **we estimate an increase in consumer spending of £1 billion, and an increase in net savings of £1 billion**.

Using an assumption about the size of the multiplier effect on Gross Domestic Product (GDP) **we estimate a GDP increase of £1.5 billion. We also estimate an improvement in the public finances (tax receipts net of public spending) of £600 million, and an increase in employment equivalent to 53,000 extra full-time jobs.** The economic assumptions underlying these calculations are presented in Appendix C of this report.

Table 3: Modelled Aggregate Impacts of £10 billion shift into salary-deducted lending, UK-wide

Economic Indicator	Modelled Impact
Reduction in debt service costs	£ 2.0 billion
Increase in consumer spending	£ 1.0 billion
Increase in net savings	£ 1.0 billion
Increase in GVA	£ 1.5 billion
Improvement in public finances	£ 600 million
Number of additional jobs (full-time equivalent)	53,000

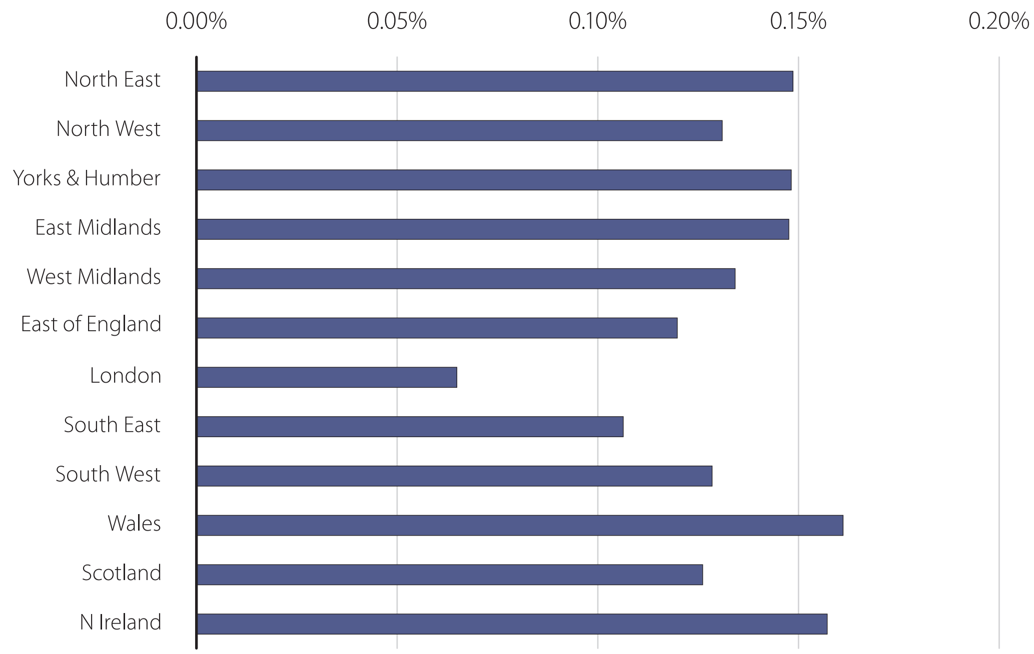
Source: Landman Economics regression analysis of the relationships between credit score and selected socio-economic indicators.

4.3.2 IMPACTS BY REGION

To model this impact on regional GVA, we use data from the UK Family Resources Survey for 2016-17 and assume that a randomly chosen set of employees with a profile corresponding approximately to Salary Finance's typical borrower take out salary-linked loans with a total value of £10 billion across the whole UK, and that other lending is £10 billion lower than it would otherwise have been as a consequence of this.

Figure 10 shows the modelled increase in GVA as a percentage of regional GVA (using the most recent GVA data from the Office for National Statistics, for 2016). Using this metric, Wales, Northern Ireland, the North East of England, Yorkshire and the Humber and the East Midlands experience the largest percentage increase in GVA, while London experiences the smallest increase in GVA. Given that GVA per head in London is around £46,500 according to the latest ONS figures, compared to less than £20,000 in Wales, Northern Ireland and the North East of England,[43] **these results suggest that a shift towards salary-deducted lending has the potential to reduce regional inequalities.**

Figure 10: Modelled Increase in GVA Resulting from a £10 Billion Shift from Other Forms of Lending to Salary-deducted Lending, by UK Region (% increase)

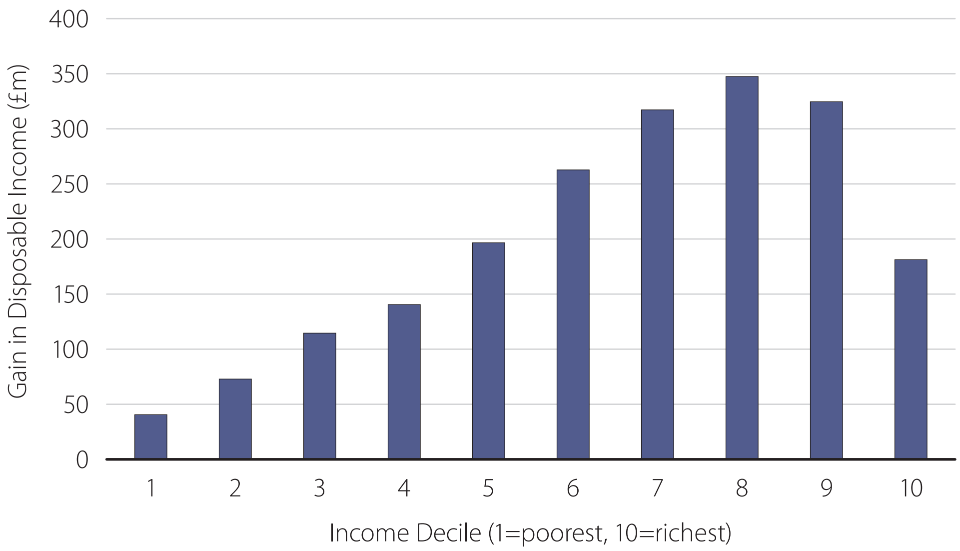


Source: Landman Economics calculations based on data from UK Family Resources Survey 2016-17

4.3.3 IMPACTS ACROSS THE INCOME DISTRIBUTION

The data from the UK Family Resources Survey (FRS) can also be used to model the impact of a shift from other sources of lending towards salary-deducted lending across the distribution of household disposable incomes. Using the FRS it is possible to divide the UK household population into ten equally-sized deciles according to their equivalised disposable income. Figure 11 shows the modelled overall gains in disposable incomes (in millions of pounds) for working households (i.e. households with at least one person in employment in them) across the distribution of household income arising from a £10 billion shift from other sources of lending towards salary-deducted lending. "Disposable income" is being defined here as income after interest payments on household debt.

Figure 11: Modelled increase in Disposable Income Resulting From a £10 Billion Shift From Other Forms of Lending to Salary-deducted Lending, Working Households by Household Net Income Decile (£m)

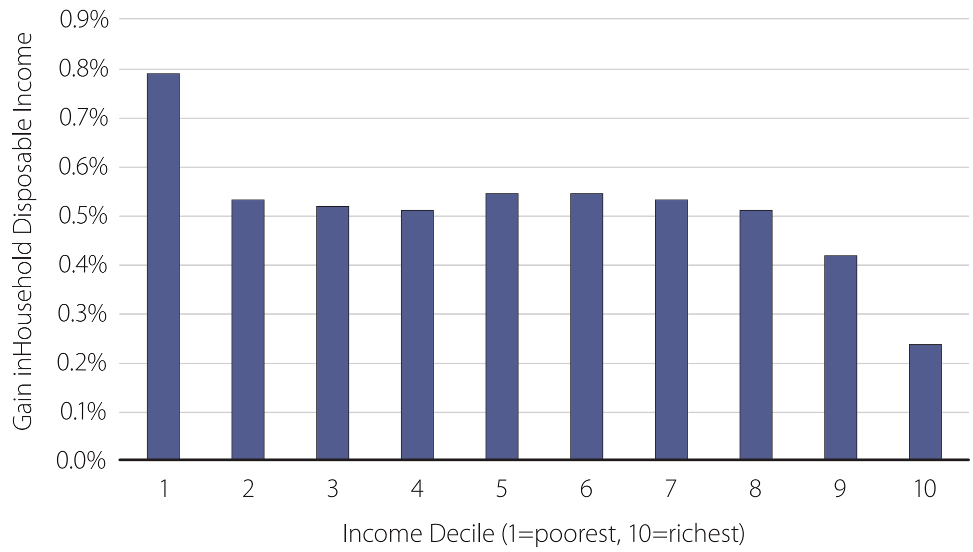


Source: Landman Economics calculations based on data from UK Family Resources Survey 2016-17

Most of the gain in overall disposable incomes accrues to households in the top half of the net income distribution, and income deciles 7 through 9 in particular. This is for several reasons. First, households in the middle-to-upper net income deciles are more likely to contain people in work than households at the bottom of the income distribution, which are largely made up of non-working households. Second, households in these deciles are also more likely to be two-earner couples (or other types of household with more than one person in work) and so experience a double (or more than double) gain in disposable income from the shift towards salary-deducted lending. Finally, we have modelled increases in salary-deducted lending as proportional to salary (within a range comparable to Salary Finance's current client base) and hence employees with higher earnings (who are more likely to be in higher net income deciles) gain more in disposable income from the shift into salary-deducted lending.

Figure 12 presents the results for the modelled increase in household net incomes as a percentage of average household income in each decile rather than in aggregate monetary terms. As average household net incomes are much lower at the bottom of the household income distribution than they are at the top, the distributional impact as a percentage of household net income is progressive, with the highest average impact in the bottom decile (at just under 0.08% of net income), while the lowest impact is in the top decile (at around 0.25% of net income). The average gains for households in deciles 2 through 8 are fairly similar at around 0.05 per cent of net income.

Figure 12: Modelled increase in disposable income resulting from a £10 billion shift from other forms of lending to salary-deducted lending, working households by household net income decile (as a percentage of average household income)



Source: Landman Economics calculations based on data from UK Family Resources Survey 2016-17

4.3.4 IMPACTS ACROSS THE WEALTH DISTRIBUTION

Finally, we model the impact of a shift from other sources of lending towards salary-deducted lending across the distribution of household wealth. The analysis here uses data from Wave 5 of the UK Wealth and Assets Survey, which is the best source of survey data on household wealth in the UK. Once again, the profile of borrowers is calibrated to match assumptions from Salary Finance on the profile of their typical client.

Figure 13 shows the impact of a £10 billion shift from other sources of lending towards salary-deducted lending across the distribution of net financial wealth[44] (savings minus debts) by wealth decile. The impacts here are shown as the total increase in household savings across each wealth decile. The blue bars show the aggregate increase in savings arising from households' own additional savings due to the shift from other sources of lending into salary-linked loans, while the red bars show a "top-up" impact from the Government's Help to Save scheme, which is being fully rolled out in Autumn 2018.

Help to Save will provide top-up payments for qualifying households who save regular monthly amounts. To qualify, households must be in receipt of Working Tax Credit (or the equivalent payment under Universal Credit).

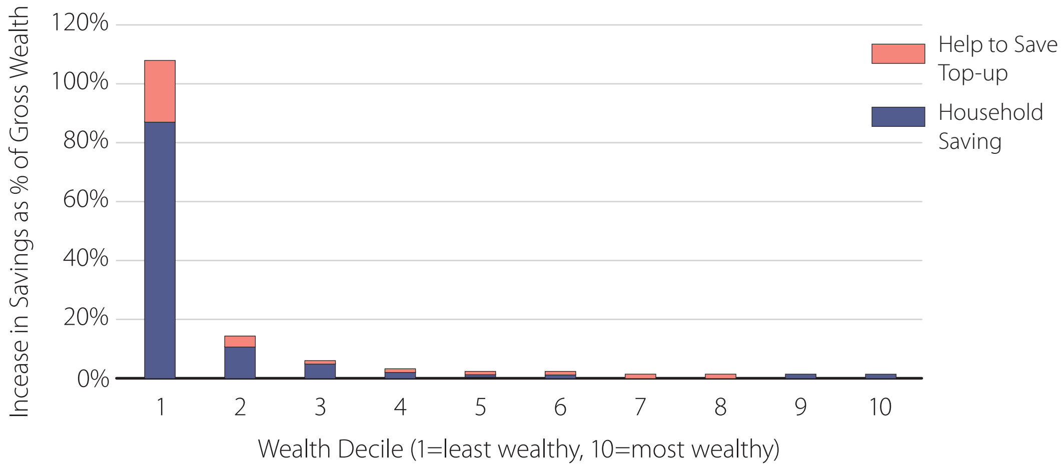
Interestingly, the impact on savings by net wealth decile is less skewed towards the top of the wealth distribution than the impact on disposable incomes by net income decile (above). The biggest aggregate increase in savings is for households in decile 5 of the wealth distribution, with the smallest impacts in deciles 1, 2 and 10. The impact of Help to Save top-ups is relatively small compared to the initial increase in private household savings but is largest in deciles 2 through 5 of the net wealth distribution.

Figure 13: Modelled Increase in Household Savings Resulting from a £10 Billion Shift from Other Forms of Lending to Salary-deducted Lending, Working Households by Household Net Wealth Decile (in £millions)

Source: Landman Economics calculations based on data from UK Wealth and Assets Survey Wave 5

Figure 14 presents the distributional impact of the increase in savings and the Help to Save top-ups as a percentage of household gross financial wealth (note that we can't use net wealth for a percentage graph as this is negative for households in the bottom wealth decile). Figure 14 shows that the increase in savings is strongly progressive, being much higher as a percentage of wealth for households lower down the distribution.

Figure 14: Modelled Increase in Household Savings Resulting From a £10 Billion Shift From Other Forms of Lending to Salary-deducted Lending, Working Households by Household Net Wealth Decile (as a percentage of household gross financial wealth)



Source: Landman Economics calculations based on data from UK Wealth and Assets Survey Wave 5

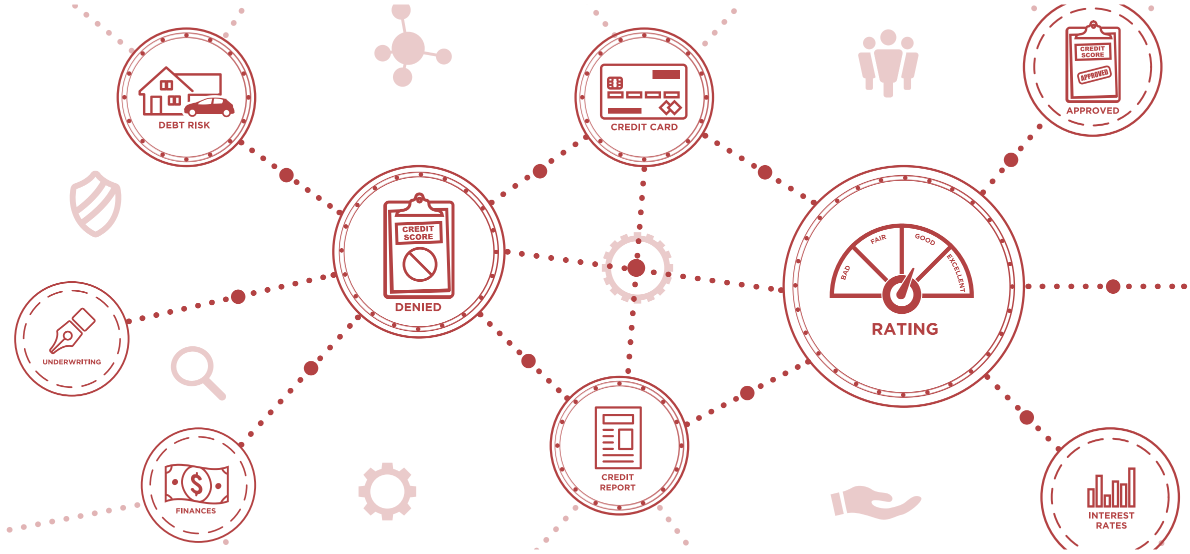
4.4 HEADLINE RESULTS AND ECONOMIC IMPACTS

We have examined the possible impact of an expansion of salary-deducted lending in the UK economy as a new source of consumer finance with the potential to substitute for other forms of lending, at substantially lower rates of interest.

The results show that credit scores are strongly correlated with a range of socio-economic variables at the Local Authority District level, in particular the working-age employment and inactivity rates, the proportion of professional and managerial employees in a district, average earnings and the Index of Multiple Deprivation. Compared to LADs at the 10th percentile of the distribution of average credit scores, LADs at the median credit score have significantly higher wages and employment, and a higher proportion of employees in managerial and professional occupations. These results give some indication of the potential for economic improvements which could accompany an improvement in credit scores at the local area level. There is potential for an expansion of salary-deducted lending to play a key role in driving these improvements.

The analysis suggests that a shift of £10 billion of lending - about 5 per cent of total consumer debt - from other forms of consumer credit into salary-deducted lending would result in a reduction in debt service costs of around £2 billion due to lower interest payments compared to other forms of lending.

Using realistic assumptions, we forecast that this increase in borrowers' disposable income would lead to an increase in consumer spending of around £1 billion, an increase in GDP of around £1.5 billion, and the creation of over 50,000 full-time equivalent jobs. The results from the economic modelling presented in this report indicate that an expansion of salary-deducted lending has the potential to reduce regional inequalities, as well as wealth inequalities between households.



5. The Solutions: A Platform for Place-Based Strategies

As our analysis has identified, residents of lower income communities are significantly more likely to be credit invisible or to have an unscored record. However, credit scoring models do not include any information about an individual's income, race, ethnicity, or what neighbourhood they live in. Although there is no causal relationship between income and credit scores, historical and structural discrimination in accessing safe, affordable credit creates barriers to socio-economic mobility and opportunity. These only worsen the financial inequalities that many residents must overcome.

Building financial resilience by increasing credit scores at the neighbourhood or local authority level can form part of a place-based strategy that can help to turn around disadvantaged communities. By connecting residents to comprehensive credit building resources, products and financial education services places can seek to uplift the average credit rating of a given area. This would allow less money to be spent on servicing debt and more to be circulated within households and local economies, ensuring that 'income inequality' does not become an unsustainable cycle of debt and sustained 'expense inequality'.

5.1 FINANCIAL CAPABILITY SERVICES IN THE UK

Financial capability is a huge challenge and there is much to do to improve the patchwork of financial education and capability services available in the UK. The levels of supply and volumes of funding are difficult to determine due to the fragmented nature of the advice sector and a lack of comprehensive data. While the landscape is further complicated by the many different routes through which people come to seek advice, and how this advice is provided.

The Money Advice Service (MAS) is the independent body appointed by Government to oversee the strategic development, funding and delivery of financial advice and guidance in the UK. It is one of the largest funders of advisory services in the UK, allocating funds, through grants and contracts, and outsourcing delivery to a number of front line specialists such as Citizens Advice and Toynbee Hall. However, it is one of a number of funders that encompass other parts of the public sector (including local government), charitable foundations and client paying private sector providers.

MONEY ADVICE SERVICE (MAS)

The Money Advice Service was established in 2011, with statutory duties to work with partners - charities, voluntary and community organisations, Registered Social Landlords and local government – to improve the availability, quality and consistency of financial advice and guidance.

From 2012 MAS took on additional responsibility for debt advice. During the transitional period of April 2012 to March 2013, the MAS entered into new agreements with existing face-to-face debt advice providers, which focussed on service delivery and an increased volume of direct contact for those in most need from 100,000 to 150,000 customers per year.

The MAS 2017/18 Annual Report and Accounts highlighted that the organisation directly provided money guidance to 10.5 million people over this period (including 3.8 million from the financially squeezed and struggling segments). In addition MAS delivered £45 million of funding for debt services that supported 468,000 people. This incorporates a mixture of Face to Face (50%), Telephone (40%) and Online (10%) provision.

As part of its expansion, MAS also launched the What Works Initiative in 2017, which has provided £11 million of funding for local schemes to help people manage their money better. As part of this, MAS is directly supporting 65 projects to investigate the best ways of enhancing financial capability.

From 2018 it will form part of a new statutory body responsible for coordinating the provision of debt advice, money guidance, and pension guidance. This new single body will be funded through existing levies on pension schemes and the financial services industry.

MAS has set out a five-year debt commissioning strategy (2018-23), which seeks to target debt advice at those most in need. The aim is to increasingly target the one in six people in the UK who regularly miss bill payments or feel overwhelmed by their debts.

This strategy includes a 'localised' approach to commissioning services to work with organisations to co-design services, and to allow local flexibility to identify and respond to target groups.[45] As part of this approach MAS will review existing practices of holistic services, to complement local arrangements, and make extensive use of co-located, or where possible, comprehensively integrated services. This might for example, provide support with both debt and mental health issues to generate the most effective longer-term outcomes for clients.

Presently, the ambitions for a more localised money advice service are focused at the level of English regions and devolved nations. Sub-regional arrangements are under consideration but there is scope for further decentred commissioning of resources. Providers report increasing demand for debt advice – the numbers accessing debt-related services have been growing year-on-year, with debt advice sessions funded through MAS increasing by 35 per cent from 2015-2016 - while evidence suggests capability is worsening.[46] A more targeted approach, one which can efficiently and effectively concentrate on neighbourhoods and communities in greatest need, could provide a better return on investment.

5.2 PLACE-BASED APPROACHES TO BUILDING CAPABILITY

The recent Independent Review of the Funding of Debt Advice highlighted the strengths of the decentralised advisory system in the Netherlands, where individual municipalities take on the responsibility for the delivery and funding of debt counselling.[47] Local municipalities are free to develop policy solutions to determine which part of the municipal fund and its own resources it uses for debt counselling. This allows the local areas to take into account their specific conditions, such as the existing demand, supply and cost, while making decisions. In addition, the approach is holistic. It addresses protection and prevention, as well as crisis intervention. It is comprehensive, including both financial situation and psychological help to change behaviours.

There are few instances in the UK of a whole-place approach to financial capability. The Newhams MoneyWorks programme is one example of an area-based intervention that aims to tackle the associated problems of indebtedness and poor credit.

CASE STUDY: NEWHAM MONEYWORKS

The London Borough of Newham has the highest levels of problem debt in the UK. The Government's Money Advice Service has estimated that 22.7 per cent of adults in the borough are over-burdened by debt.

In Newham, the median income is £15,704, compared to the national average of £22,204. In terms of housing, about half of residents rent privately, with about 30 per cent in social housing, while employment is dominated by low-paid, low-skilled work, with one-fifth of residents earning less than the minimum wage.

Considering these issues of low-income and debt in the area, the council launched MoneyWorks in 2016 to provide an alternative to high-cost, short-term lenders. Newham MoneyWorks is a 'one-stop shop', based in the borough's Stratford centre, which provides access to affordable loans, financial products and advice. The service seeks to divert residents from using high-cost payday lenders and is open to residents who are aged 18+ and have lived in Newham for more than a year.

Newham council has also cracked down on the advertising of high-cost loans. Payday lenders with APR interest rates of above 400 per cent are banned from advertising on council-owned property, while these websites are blocked on council computers and workplaces. Individuals attempting to access payday lenders on council computers are redirected to the council money and debt advice pages.

Newham MoneyWorks acts as a credit broker and not a lender, working in partnership with the London Community Credit Union who provide the loans. The initial delivery model included a grant of £50,000 to the Credit Union to provide the service on behalf of MoneyWorks. However, just weeks after launching the service, the Cabinet agreed to increase the yearly grant to £150,000 per annum.

At present, there is no published data on the number of residents Newham MoneyWorks has worked with, or the level of success the programme has had in diverting residents from accessing high-cost loans.

In the US, the City of Boston is currently undertaking a whole-place approach to the deep structural problems associated with poor credit rating. Boston Builds Credit is an initiative that has been created with the support of the Mayor Martin J. Walsh and in partnership with two large foundations, the Local Initiatives Support Corporation and the United Way of Massachusetts Bay and Merrimack Valley.

The aim is to move a third of the City's residents from a poor to prime credit rating; and to quantify the value to both individuals and the city of upgrading large numbers of people. Boston Builds Credit, which has a $4.5 million budget for the first three years, has a short-term goal of helping 3,000 people improve their credit scores by an average of 30 points over the next three years.

Success will be evaluated by tracking credit score changes of program participants, as well as by analysing citywide data provided by credit bureaus. It will also look at the city-wide costs and benefits in terms of the savings that can be made through preventative measures.

This is the first programme of its kind in the US and if successful, the hope is that it can serve as a model for other cities.

CASE STUDY: BOSTON BUILDS CREDIT

Boston has the highest income inequality among the top 100 cities in the United States, according to research from the Brookings Institution. Almost a quarter of a million people have either a poor credit score (136,000) or none at all (100,000). This means that credit and store card lenders, payday lenders, car dealers, and mortgage providers will charge higher interest rates, which can cost someone up to $200,000 in higher fees over the course of a lifetime.[48] Landlords and even employers can run credit checks and pass over someone with a low score.

People with poor scores tend to have low incomes, meaning those facing the highest costs are the ones who can least afford it. So, to address this situation and help those who are struggling, the City has launched a credit building programme which aims to lift the credit score of at least 25,000 residents by the year 2025. In the US the magic credit score is 660, the threshold at which interest rates often go down and loans and credit cards are more likely to be approved.

Boston Builds Credit works with more than 25 non-profits to host free credit-building workshops, and one-on-one financial coaching. Alongside learning the importance of paying bills on time, participants are introduced to products such as secure credit cards and credit-building loans, in which people are loaned small amounts of money that is held by the lender while the borrowers pay it off — improving their credit scores in the process.

The initiative also includes a pilot program with Boston Medical Centre to offer credit-building assistance as an employee benefit with plans to expand it to other employers.

5.3 A PLATFORM FOR CREDIT EMANCIPATION

Freedom from high-cost credit and indebtedness for the most vulnerable citizens in our most disadvantaged communities could be achieved with a whole-place approach to credit building and financial education. This would require an area-based strategy to target priority groups with coordinated action and effective measures to both combat the effects, and prevent the causes, of debt. It would also necessitate the integration of existing services, including public, private and community-based resources to build a single system with multiple points of access that can:

1. Engage employers in workplace action

The introduction of salary-deducted lending presents a simple and practical opportunity to extend affordable credit to employees who otherwise would only qualify for high-cost forms of borrowing, which can adversely affect their individual wellbeing and workforce productivity. An immediate focus on large employers in both the public and private sector would provide the scale of operation to keep down interest rates on salary-deducted loans and provide wider benefits to local economies. Large private sector firms account for just 0.1 per cent of all businesses in the UK. However, they comprise 40 per cent of all employees and should therefore be a priority target for adoption.[49]

Of course, public sector organisations, including local authorities, are also large employers. Approximately 17 per cent of the UK workforce is employed in the public sector, representing about 5.5 million employees.[50] In many deprived areas public sector organisations are the single biggest employer, where the proportion of employment is much higher than the national average. Public sector employment in England's core cities ranges between 30 per cent and 36 per cent of the total workforce.[51] Clearly this represents a significant share and an obvious focus for addressing problems of pay-day loans, personal debt and in-work poverty.

Public sector employers should take a lead and set an example to the private sector by becoming early adopters of salary-deducted lending services and by promoting financial education in the workplace. Other private employers, large and then medium sized, could follow.

2. Involve, support and integrate community-based organisations

A whole-place approach will need to involve and integrate community-based organisations that already provide financial capability and asset building programmes and, in some cases, credit building services. This would include local advisory services funded through MAS, such as Citizen Advice Bureaus, but also local community finance providers like Credit Unions and Community Development Finance Initiatives (CDfls).

The government has recently published its Civil Society Strategy in which it promises to "build stronger communities by bringing together businesses, charities and the public sector".[52] One of the key announcements is the creation of a new Financial Inclusion organisation to address the problem of indebtedness by helping to grow the affordable credit sector. It will be important for this new independent entity to deploy its resources, including £55 million of funding from dormant accounts, via community-based providers.

An area-based strategy would need to allow for competition between different operators including advisory agencies and lenders in any local market but it should seek to minimise any unhealthy competition that does not prioritise the optimum outcomes for individuals. The segmenting of priority target groups, the identification of lead or 'prime' contracting partners and the practice of cross-referral would help to remove some of the potential friction in the system and develop complementary services.

For example, salary-deducted lending by an organisation like Salary Finance would be marketed to a work-based population that credit unions are currently less able to serve. Similarly, community finance providers may lend to small business owners, the self-employed or unemployed, which salary-linked lenders would not have access to. The use of 'Service Level Agreements' and 'Memoranda of Understanding' could be used to ensure that promotion, advertising and marketing of products and services includes all available options from which potential customers and clients can choose.

More integrated Partnership models with commercial arrangements and incentives could be explored, for example salary-linked lenders could encourage borrowers to set up a savings account with Credit Unions. Financial technology could also be licensed to community lending providers to provide a shared and integrated platform.

3. Integrate financial education and credit building into services for young people

Young people are disproportionately represented amongst the financially excluded and those without a credit history. Many young people transition to adulthood without basic financial skills, including day to day money management.

Financial education programmes should be promoted and made available in all further and higher education institutions. A whole-place approach to building credit and capability, will require a closer partnership between colleges, student unions and local debt advice organisations to develop, and where appropriate, co-design information, guidance and advice to effectively target young people.

Universities, Further Education (FE) Colleges, and Sixth-Forms should host regular workshops and seminars, promote webinars and on-line materials (such as the Open Universities 'Managing My Money' course) as well as sign-posting to one-to-one coaching where necessary. There may also be scope for training college staff in financial coaching to strengthen local capacity and capability.

Intervention in schools such as the joint project between the Tower Hamlets Education Business Partnership and Quaker Social Action, to encourage local primary school children to learn more about money can have wider benefits for families. Local agencies providing family and parental support should be encouraged to build money management into their work in a way that complements schools-based provision and allows both school children and parents to learn more and develop their confidence in dealing with money.

4. Provide credit building for small businesses and self-employed

Most enterprises in the UK (96%) are micro-businesses employing less than ten people. There are 5.5 million micro-businesses, including sole proprietors, accounting for 33 per cent of all employment.[53]

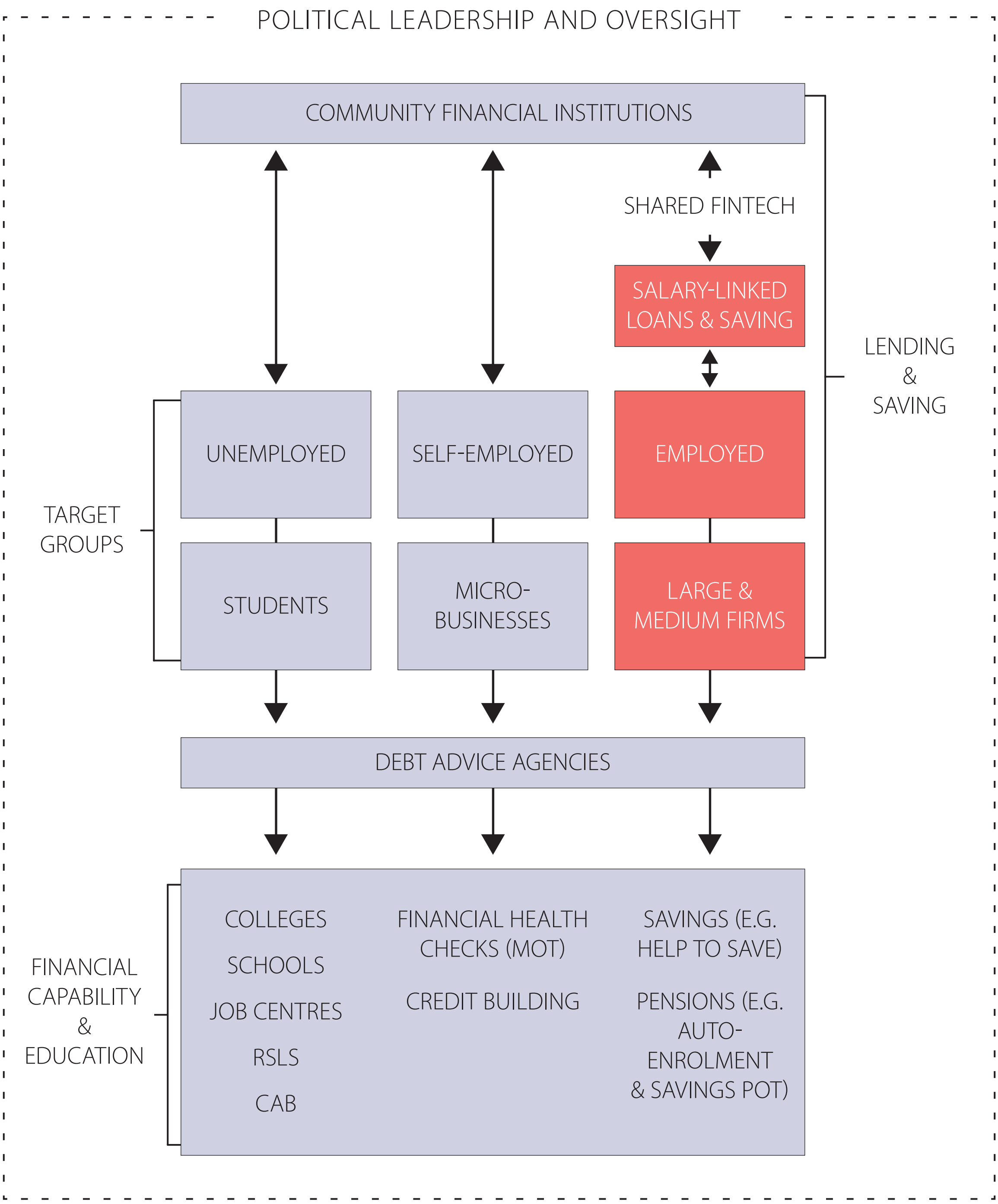
Improving levels of entrepreneurship in deprived areas is of course vital to improving local economies. Yet business start-up and survival rates in some of the most economically disadvantaged parts of the country lag behind the national average and consequently need much more support if they are to grow and survive.

Many lower-income enterprises are more likely to have poor or no credit histories, and often lack sufficient liquidity, assets or savings to fall back on in the face of financial challenges or emergencies. Businesses with poor or no credit struggle to get safe, affordable loans and can be prime targets for predatory lending.

CDFIs and Credit Unions are one potential source of more flexible lending for businesses, although they are limited in terms of the numbers of businesses they are able to assist. Credit building for small businesses, and the entrepreneurs who own them, may help to sustain and grow enterprises over time by enabling greater access to more affordable mainstream loans.

Business support services and local investment vehicles for small businesses should seek to integrate this credit building function, including a financial health check and diagnostic, into their operations.

Figure 15: Schema of Place-based Platform



A place-based approach to credit building should understand, fit with and complement existing interventions, including local and national resources. This would mean working with the grain of the Money Advice Services Debt Commissioning Strategy and operating within the parameters of Government initiatives such as the Inclusive Economy Partnership (which supports greater collaboration between business, civil society organisations, and government, to tackle challenges affecting disadvantaged communities) Help to Save (which aims to stimulate savings amongst recipients of Working Tax Credits) and the proposed Breathing Space Programme (which would allow financially troubled people the ability to seek advice whilst interest, charges and enforcement are paused).

However, political leadership and ownership at the local level will be essential to achieving buy-in and effective coordination between many different partners and for this reason we would suggest that local authority boundaries would represent the appropriate economy of scale for place-based credit building. City-Mayors and Metro-Mayors could champion Credit Emancipation for local citizens and advance the case for greater decentralisation of debt relief services and funding. Additionally, local politicians may seek to follow Scottish Government's lead and strengthen local planning powers to limit and counter the harm caused by payday lenders on the high street. In 2016 Scottish Government introduced new legislation so that anyone intending to change the use of a premises to a betting shop or pay day loan service now must apply to their local planning authority for permission.

6. Conclusions and Recommendations

Building good credit will not solve all financial difficulties or eradicate the root cause of inequalities which contribute to financial exclusion and indebtedness. However, by focusing on the problems of poor credit it is possible to build the capability to manage finances more effectively and improve access to more affordable loans. Unlike many aspects of inequality, improving credit is relatively straightforward to achieve if certain habits and behaviours are adopted.

We have identified that poor credit ratings are strongly correlated with a range of socio-economic variables and disproportionally concentrated in our most deprived communities. Although the relationship is not directly causal, an improvement in a local authority's aggregate credit rating, from the bottom 10 per cent to the middle of the credit score distribution, would equate to improving median weekly earnings by £36 (just over 9 per cent) an improved employment rate of around 3 percentage points, and an increase in home ownership of 6 percentage points.

The expansion of salary-deducted lending in the UK economy, as a new source of consumer finance, has the potential to substitute for other forms of lending, at substantially lower rates of interest. Our analysis suggests that a shift of £10 billion of lending from other forms of consumer credit into salary-deducted lending would result in a reduction in debt service costs of around £2 billion.

This increase in borrowers' disposable income would lead to an increase in consumer spending of around £1 billion, an increase in GDP of around £1.5 billion, and the creation of over 50,000 full-time equivalent jobs. An expansion of salary-deducted lending has the potential to reduce regional inequalities as well as reducing inequalities of wealth between households by helping users to save money and bridge capital to mortgages and pensions.

Given the geographical concentration of poor credit and indebtedness we recommend that:

1. All local authorities should take a place-based approach to credit building.

This should identify priority groups with coordinated action and effective measures to both combat the effects and prevent the causes of debt. It should aim to build a single integrated system with multiple points of access.

2. All public-sector employers should adopt salary-deducted lending and savings systems and promote financial education in the workplace.

The public sector should take the lead and set the norm, through wide-scale adoption. Other private employers, large and then medium sized, could follow. The benefits can be achieved today without changes in law or government intervention.

3. The public sector should seek to lever the benefits of salary-deducted lending by including this as an indicator of social value in their assessment process for public procurement.

The Government's civil society strategy aims to increase social value commissioning across all levels of government and encourage a responsible private sector by promoting finance and tech for social good. In line with these aims the adoption of salary-deducted lending should be included in Government evaluations of social value.

4. Local Government and Local Enterprise Partnerships should use their convening power to encourage private sector employers to adopt salary-linked lending.

Local government and partners should promote the benefits of salary-deducted lending and campaign for its adoption by private sector employers. This could be similar to how the Living Wage was publicised more widely to raise awareness among employers.

5. Government should explore the benefits of an area-based credit building pilot.

This could be undertaken in collaboration with a Metro-Mayor and a leading FinTech partner like Salary Finance. This would seek to devolve an element of debt management funding from the Money Advice Service to develop policy solutions and determine where and how resources should be committed. HM Treasury should evaluate the economic impact of this public policy approach to credit emancipation.

6. Government should provide greater capital for fair lenders like Credit Unions and Community Development Finance Institutions.

The Government's proposal to establish a new Financial Inclusion organisation should seek to deploy its funding, from dormant accounts and other sources, through community-based lenders to help grow the affordable credit sector.

7. Government should provide a visible policy lead on this agenda.

A designated Minister for Financial Inclusion, as recommended by the Select Committee, or Debt Tsar, as recommended by the Independent Review of Funding of Debt Advice, would help to drive and coordinate this work.

8. The Money Advice Service should seek to devolve the commissioning of resources for debt advice.

This would help localities to identify and address the current fragmentation of services and provide a more targeted approach on neighbourhoods and communities of greatest need.

9. The Money Advice Service should consider the introduction of Kite Marks to standardise financial advice and guidance.

This would help to improve basic quality standards and even out provision. This could be introduced on a voluntary / self-regulating basis, without the need for imposed regulation.

10. All education institutions should embed financial education and advice as part of their pastoral care, and where appropriate their curriculum.

There should be a stronger role for Ofsted in assessing provision, in order to deliver against this objective.

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Appendix A:
Matching the Credit Score Data with Local Authority Indicators

Clearscore provided a database of anonymised credit score data for approximately 5.7 million individuals, aggregated to outward code level (i.e. the part of the postcode before the single space in the middle, for example "CM9", "CO5", "WC1A" etc.). This was matched with a database which mapped all postcodes in England and Wales to Local Authority Districts (LADs). The result of this matching exercise was that, out of a total of 3,042 postcode observations at outward code level:

- 1,087 (covering around 2.1 million individual credit scores) were matched with one particular local authority;
- 1,206 (covering around 3 million individual credit scores) were matched with more than one local authority (this indicates that the postcode covers more than one local authority area);
- 749 (covering around 600,000 individual credit scores) were not matched (the majority of these were postcodes in Scotland and Northern Ireland, which were not included in our postcode mapping file).

Where the postcode data matched with more than one local authority, it was assumed that the individuals in the credit score database were equally likely to be in each of the constituent local authorities, so the data was effectively divided evenly between them.

Appendix B:
Local Authority District in England and Wales Ranked by Credit Score

Table B.1 shows a ranking of the 347 Local Authority Districts in England and Wales by credit score, from lowest to highest.

Table B.1

Local Authority District	Rank (lowest score = 1)	Average credit score
Blackpool	1	312.54
Kingston upon Hull, City of	2	314.62
Middlesbrough	3	314.95
Liverpool	4	315.17
North East Lincolnshire	5	317.61
Hartlepool	6	317.64
Burnley	7	319.86
South Tyneside	8	320.01
Newcastle upon Tyne	9	320.10
Manchester	10	320.61
Blaenau Gwent	11	321.51
Oldham	12	322.06
Salford	13	323.99
Redcar and Cleveland	14	325.82
Neath Port Talbot	15	326.07
Wolverhampton	16	326.22
Merthyr Tydfil	17	326.41
Knowsley	18	326.67
Sunderland	19	327.10
Tameside	20	327.18
Sandwell	21	328.68
Halton	22	328.87
Newham	23	329.16
Thanet	24	329.81
Newport	25	329.99
Rochdale	26	331.53
Walsall	27	331.70
Telford and Wrekin	28	332.22
Wirral	29	332.40
Bolton	30	332.45
Barking and Dagenham	31	332.54
Birmingham	32	333.17
Rhondda Cynon Taf	33	333.18
Portsmouth	34	333.42
Stockton-on-Tees	35	333.46
Stoke-on-Trent	36	333.55
St. Helens	37	333.55
Hyndburn	38	333.74
Nottingham	39	334.10
Plymouth	40	334.22
Mansfield	41	334.62
Darlington	42	335.21
Gateshead	43	335.92
County Durham	44	336.25
Luton	45	336.93
Preston	46	337.15
Bury	47	337.30
Peterborough	48	337.69
Coventry	49	337.72
Rossendale	50	337.97
Hastings	51	338.10
Torfaen	52	338.47

Leicester	53	338.64
Broxtowe	54	338.79
Doncaster	55	338.89
Southampton	56	339.05
Ribble Valley	57	339.20
Dudley	58	339.37
Cannock Chase	59	339.39
Nuneaton and Bedworth	60	339.56
Waveney	61	339.85
Pendle	62	339.91
Great Yarmouth	63	339.98
Greenwich	64	340.09
Leeds	65	340.13
Bradford	66	340.35
Wigan	67	340.50
Sheffield	68	340.53
Derby	69	340.71
Swansea	70	340.87
Caerphilly	71	340.99
Tendring	72	341.12
Ashfield	73	341.51
North Lincolnshire	74	341.52
Warrington	75	341.78
Waltham Forest	76	341.80
Rotherham	77	341.81
Sefton	78	341.89
Wyre	79	342.14
Corby	80	342.27
Northampton	81	342.69
Cardiff	82	342.73
Harlow	83	342.89
The Vale of Glamorgan	84	342.99
Newcastle-under-Lyme	85	343.84
Gosport	86	344.35
Blackburn with Darwen	87	344.59
South Ribble	88	344.62
Wakefield	89	344.86
Medway	90	345.02
Southwark	91	345.26
Wrexham	92	345.57

Carlisle	93	345.75
Conwy	94	346.17
North Tyneside	95	346.23
Haringey	96	346.35
Barnsley	97	346.39
Scarborough	98	346.95
Lancaster	99	347.01
Southend-on-Sea	100	347.40
Gloucester	101	347.51
Bolsover	102	347.54
Northumberland	103	347.62
Bridgend	104	347.65
Kirklees	105	347.82
Hackney	106	347.85
Oxford	107	348.16
Lewisham	108	348.21
Enfield	109	348.29
Lambeth	110	348.35
Pembrokeshire	111	348.45
West Lindsey	112	348.49
Gedling	113	348.78
Calderdale	114	348.95
Wellingborough	115	349.65
Swale	116	349.66
East Lindsey	117	349.75
Barrow-in-Furness	118	349.82
Ipswich	119	349.84
Kettering	120	349.87
Stockport	121	350.09
Fylde	122	350.21
Boston	123	350.71
Powys	124	350.88
Carmarthenshire	125	350.95
Torbay	126	351.00
Weymouth and Portland	127	351.07
Flintshire	128	351.11
Monmouthshire	129	351.32
Staffordshire Moorlands	130	351.32
Havant	131	351.42
Isle of Anglesey	132	351.46

Dover	133	351.58
Eastbourne	134	351.64
South Staffordshire	135	351.65
Brent	136	351.97
Trafford	137	352.06
Chesterfield	138	352.10
Redditch	139	352.26
Tower Hamlets	140	352.53
Milton Keynes	141	352.70
Oadby and Wigston	142	352.91
Bassetlaw	143	352.98
Bromsgrove	144	353.15
Norwich	145	354.06
Denbighshire	146	354.12
Stevenage	147	354.33
West Lancashire	148	354.45
Richmondshire	149	354.68
Croydon	150	354.72
Lincoln	151	354.87
Daventry	152	355.00
Tamworth	153	355.27
Gwynedd	154	355.34
Redbridge	155	355.58
Gravesham	156	355.58
Teignbridge	157	355.64
Bristol, City of	158	355.93
Basildon	159	355.95
Thurrock	160	355.96
Newark and Sherwood	161	356.41
Bournemouth	162	356.49
Copeland	163	356.79
City of London	164	356.80
Swindon	165	356.96
High Peak	166	356.96
Worcester	167	357.05
Allerdale	168	357.06
North Devon	169	357.09
Ealing	170	357.17
Stafford	171	357.22
Chorley	172	357.31

Cornwall	173	357.42
Rother	174	357.75
Exeter	175	358.07
Bexley	176	358.15
Cheshire West and Chester	177	358.16
East Riding of Yorkshire	178	358.19
Colchester	179	358.23
Charnwood	180	358.35
South Derbyshire	181	358.74
Blaby	182	358.82
Erewash	183	358.85
Rugby	184	359.01
Amber Valley	185	359.41
Sedgemoor	186	359.47
Shepway	187	359.48
Hammersmith and Fulham	188	359.56
East Staffordshire	189	359.60
Maidstone	190	360.09
King's Lynn and West Norfolk	191	360.22
North Warwickshire	192	360.24
Test Valley	193	360.27
Isle of Wight	194	360.38
Selby	195	360.64
East Northamptonshire	196	361.17
South Hams	197	361.58
Crawley	198	361.79
Taunton Deane	199	361.83
Ashford	200	361.86
Broadland	201	362.42
Camden	202	362.68
Islington	203	362.76
Bedford	204	362.76
Forest Heath	205	362.98
Hounslow	206	363.13
West Somerset	207	363.39
North East Derbyshire	208	363.54
Canterbury	209	363.63
Sutton	210	363.70
Cambridge	211	363.80

South Kesteven	212	363.81
Shropshire	213	364.09
Brighton and Hove	214	364.36
Hillingdon	215	364.57
Slough	216	364.64
North Kesteven	217	364.78
Welwyn Hatfield	218	365.02
Westminster	219	365.08
Dartford	220	365.44
Herefordshire, County of	221	365.51
Arun	222	365.59
West Dorset	223	365.68
Worthing	224	366.07
South Holland	225	366.12
Wyre Forest	226	366.20
Fenland	227	366.50
North Somerset	228	366.90
Eastleigh	229	367.06
Hinckley and Bosworth	230	367.13
Reading	231	367.24
Poole	232	367.68
Torridge	233	368.00
Rushmoor	234	368.15
Adur	235	368.38
St Edmundsbury	236	368.55
York	237	368.64
Wiltshire	238	368.97
Ceredigion	239	369.03
Dacorum	240	369.04
Harborough	241	369.31
Huntingdonshire	242	369.70
North Hertfordshire	243	369.73
Cheshire East	244	369.75
North West Leicestershire	245	369.86
Solihull	246	369.97
Cheltenham	247	370.02
Mid Devon	248	370.40
Tonbridge and Malling	249	370.40
Central Bedfordshire	250	370.69
Breckland	251	371.13

Cherwell	252	371.26
East Devon	253	371.27
Chichester	254	371.33
Lewes	255	371.41
Forest of Dean	256	371.73
Ryedale	257	372.28
Harrow	258	372.35
South Norfolk	259	372.94
Kensington and Chelsea	260	373.05
Lichfield	261	373.39
Watford	262	373.42
Malvern Hills	263	373.50
East Hampshire	264	373.61
Hambleton	265	373.79
Melton	266	373.84
Aylesbury Vale	267	373.92
Merton	268	373.99
Bromley	269	374.03
Epping Forest	270	374.27
Havering	271	374.37
Basingstoke and Deane	272	374.67
Tewkesbury	273	374.71
Suffolk Coastal	274	374.80
South Somerset	275	374.90
Warwick	276	374.96
South Bucks	277	375.04
Babergh	278	375.13
Wychavon	279	375.26
Braintree	280	375.42
Purbeck	281	375.59
West Devon	282	375.77
Fareham	283	375.83
South Cambridgeshire	284	375.95
Stroud	285	376.10
South Gloucestershire	286	376.80
Mendip	287	377.02
South Oxfordshire	288	377.08
Rushcliffe	289	377.22
East Cambridgeshire	290	377.43
Stratford-on-Avon	291	377.56

Spelthorne	292	377.64
North Norfolk	293	378.17
Wandsworth	294	378.45
Broxbourne	295	378.68
Eden	296	378.73
North Dorset	297	378.86
West Berkshire	298	379.20
Wealden	299	379.31
New Forest	300	379.41
Tunbridge Wells	301	379.51
Craven	302	379.99
Rochford	303	380.22
Cotswold	304	380.26
South Northamptonshire	305	380.69
Castle Point	306	380.75
Rutland	307	381.01
Winchester	308	381.05
Horsham	309	381.32
Wycombe	310	381.32
Barnet	311	381.37
Vale of White Horse	312	381.50
Mid Sussex	313	381.54
Christchurch	314	381.67
Bracknell Forest	315	382.45
Maldon	316	382.79
Mid Suffolk	317	382.86
Bath and North East Somerset	318	383.53
Richmond upon Thames	319	383.78
South Lakeland	320	383.87
Uttlesford	321	384.19
East Hertfordshire	322	384.44
Hertsmere	323	384.53
West Oxfordshire	324	384.61
St Albans	325	385.49
Derbyshire Dales	326	386.44
Harrogate	327	386.54
Wokingham	328	389.08
Woking	329	389.62
Tandridge	330	389.83
Chelmsford	331	390.89
East Dorset	332	391.27
Reigate and Banstead	333	391.98
Surrey Heath	334	392.37
Three Rivers	335	392.40
Kingston upon Thames	336	393.27
Guildford	337	393.40
Runnymede	338	395.09
Windsor and Maidenhead	339	395.56
Waverley	340	397.31
Sevenoaks	341	399.09
Elmbridge	342	400.41
Hart	343	400.49
Brentwood	344	400.85
Epsom and Ewell	345	401.70
Mole Valley	346	403.13
Chiltern	347	415.32

Appendix C:
Assumptions Underlying Economic Analysis in Chapter 3

AGGREGATE ANALYSIS (SECTION 3.3.1)

The aggregate analysis of the impact of a shift of £10 billion from other forms of lending into salary-deducted lending makes the following assumptions:

Marginal propensity to consume additional disposable income as a result of reduced interest payments: we assume that the marginal propensity to consume is 0.5, i.e. 50 pence out of every £1 saved on interest payments is spent on goods and services. Based on recent work by NMG Consulting for the Bank of England measuring the marginal propensity to consume (which suggested that the marginal propensity to consume across all households was around 0.43), this seems a reasonable assumption, given that at least some of the households who have taken out debt are likely to be credit-constrained and may have a much higher marginal propensity to consume than the average across the population.

Marginal propensity to save additional disposable income: we assume that this is equal to 1 minus the marginal propensity to consume, i.e. (1-0.5) = 0.5.

Multiplier impact of additional consumption of goods and services: We assume that the multiplier impact of additional consumption of goods and services on GVA is 0.5, i.e. a £1 increase in consumption increases final GVA by (1 + 0.5) * £1 = £1.50. This seems a reasonable estimate based on the Office for Budget Responsibility's multiplier assumptions in its macroeconomic model (OBR, 2015).

Improvement in public finances arising from additional disposable income: We assume that this is equal to the additional GVA multiplied by 0.4, where 0.4 is a reasonable assumption for the long-run ratio of taxation to UK Gross Domestic Product.

Number of extra full time equivalent (FTE) jobs created: This is calculated by assuming that jobs are created at the average full-time salary in the UK, which is approximately £28,000 per year according to data from the Annual Survey of Hours and Earnings for 2017 (ONS, 2018).

ANALYSIS BY REGION (SECTION 3.3.2) AND INCOME DECILE (3.3.3)

This part of the analysis uses data from the UK Family Resources Survey (FRS) for 2016-17. To provide a reasonably close match to Salary Finance's current client base, the analysis uses the subsample of employees with an annual income of between £10,000 and £40,000 (uprating to April 2018 prices). To the model the impact of a shift from existing consumer debt into salary-deducted lending, the analysis is performed only for those employees who are already making repayments on an existing loan or other form of (non-mortgage) debt (FRS variable EUREPAY = 1).

ANALYSIS BY WEALTH DECILE (SECTION 3.3.4)

This part of the analysis uses data from the UK Wealth and Assets Survey Wave 5 (collected 2014-2016). As with the FRS data used in Sections 2.2 and 2.3, the analysis uses the subsample of employees with an annual income of between £10,000 and £40,000 (uprating to April 2018 prices). To the model the impact of a shift from existing consumer debt into salary-deducted lending, the analysis is performed only for those employees in households who already have non-zero outstanding debts (check variable name).

MODELLING THE IMPACT OF HELP TO SAVE

The UK Government's Help to Save scheme is a new government saving scheme to support working people on low incomes to build their savings.

The scheme is open to UK residents who are:

- Entitled to Working Tax Credit and receiving Working Tax Credit or Child Tax Credit payments;
- Claiming Universal Credit and have a household or individual income of at least £542.88 (not including their Universal Credit payment itself) for their last monthly assessment period.

Help to Save is being fully rolled out in October 2018.

Over 4 years, regular savers can deposit up to £50 per month. At the end of 2 years, savers get a 50 per cent bonus based on the highest balance achieved. Customers can carry on saving for another 2 years and get another 50 per cent bonus on their additional savings. Over 4 years, those saving the maximum of £2,400 will receive bonuses of £1,200.

For this report, the Help to Save scheme was modelled by identifying the eligible population of Working Tax Credit and Universal Credit claimants in the Wealth and Asset Survey, and then assuming that employees in this group received a 50 per cent bonus on their savings (up to a maximum of £1,200).

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Prosperity

The UK has some of the highest levels of wealth concentration in the developed world. It has an economy where most mature markets are dominated by a small number of players and the barriers to entry are far too high. It is not an exaggeration to suggest that in many areas, from energy to banking to groceries, the UK has a monopolistic rentier rather than a market economy – a system in which certain individuals or small groups gain market dominance and excessive returns through anti-competitive practices. This conspires against innovation and is detrimental to the small and emergent businesses that generate growth and spread prosperity. Added to this, our education system, by specialising too early and often in the wrong areas, fails to produce students with fully rounded skill-sets. We are simply not equipping our future workforce with the means to safeguard our, and their, economic future. This is one reason why the real value of wages in proportion to growth in GDP continues to stagnate or fall. Our long-term productivity dilemma is a function of market capture and the effective de-skilling of the population.

We believe that shared prosperity cannot be achieved by simply tweaking the market. Britain needs significant demand and supply-side transformation, with new visionary institutions re-ordering our economy. We need long-term solutions that give power over wealth and assets, not simply handouts, to ordinary people. Central to this process of economic empowerment is an ethical, practical and adaptable education that gives people the skills to build their own businesses, or develop their own talents, rather than a conveyor belt to a service industry of low wage and less return.

New financial institutions to promote small business lending are required, and this involves smaller, more specialised and decentralised banks that can deliver advice as well as capital. We wish to explore ways in which all financial transactions can be linked to a wider social purpose and profit, which itself needs a transformation of the legal framework within which economic transactions take place. We believe that the future lies in the shaping of a genuinely social market which would be in consequence a genuinely free and open market. Internalising externalities and creating a level economic playing field in terms of tax paid and monopolies recognised and challenged, remains beyond the scope of contemporary governments to deliver. Such a vision requires new concepts. The viable transformative solutions lie beyond the purview of the current visions of both left and right in the UK.

Prosperity *Prosperity* *Prosperity*

This report makes the case for a place-based approach to building credit. We argue that improving aggregate credit scores at the local authority level can help to address the problems of unaffordable credit, financial exclusion, indebtedness and in-work poverty that are negatively affecting individuals and communities in the UK.

In addressing how local credit building strategies can help individuals and households take control of their financial lives, we focus on the role that both public and private sector employers can make in helping to turn around deprived communities. We examine the potential of 'salary-deducted lending' – a scheme where employees can apply for loans to be delivered through their employer's payroll mechanism – as a more affordable option to other sources of credit, such as bank loans, credit cards or payday lenders.

We outline how salary-linked lending and savings alongside financial education can form part of a broader set of place-based solutions to help employers and employees make local communities more productive and prosperous.

SALARY FINANCE

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