



Community Banking Partnership

The joined-up solution for financial inclusion and community economic development



Cliff Rosenthal running the first Community Banking Partnership training event in 2004.

Foreword

For more than a decade, it has been the privilege of the U.S.-based National Federation of Community Development Credit Unions to work with a pioneering group of the Britain's credit union movement as they developed a new, comprehensive financial-service model: Community Banking Partnership. In the current financial crisis, their – and our – work has expanded beyond financial inclusion, to embrace the financial protection of the rapidly increasing ranks of the economically vulnerable.

Writing at a time when the downward economic spiral seems only to be accelerating, I am pleased to share one hopeful trend from the United States. The Community Development Financial Institutions (CDFI) movement in the U.S., which includes community development credit unions, banks, loan funds, venture capital funds, and micro-enterprise organisations, has outperformed the largest financial institutions over the last year. Credit unions, for example, increased their mortgage and consumer lending in 2008. Many community development loan funds report more well-qualified demand than they can readily meet. Community development banks have demonstrated a solid record.

The CDFI movement, which brings together all these various sectors, have achieved unprecedented recognition and support from the new administration of President Obama. The U.S. Treasury Department's CDFI Fund, established and sustained through the joint efforts of CDFI Coalition for fifteen years, has received a special \$100 million "stimulus" appropriation, and the President's request calls for a 100 per cent increase in the annual appropriation in the coming year.

There are several lessons that we can draw from these successes. First of all, the community-based financial model is a viable one, especially in times of crisis. Second, CDFIs have demonstrated to government their value as a highly targeted means to provide financing to underserved and excluded populations, which have been hit especially hard by the downturn. Third, as demonstrated by the broad diversity of CDFIs in the U.S., multiple, creative financial tools and institutions are needed. Fourth, bringing together these diverse organizations in a lasting, disciplined coalition maximizes the impact and benefit of the various community development financial sectors. Britain's credit unions and community development loan funds can raise their game by building a broad-based Community Development Finance alliance that as a mutual movement can speak with one voice to Government and to other social investors.

Community Banking Partnerships are an outstanding example of thinking outside the conventional banking box. The established CBPs have proven to be capable lenders, vigorous builders of partnerships with the public and private sector, and important providers of financial advice and other non-monetary services. The experience of these urban and rural "pathfinders," with their comprehensive approach, is well worth replicating on a broader scale. The publication by nef and NACUW of this report is an important step in validating and promoting the CBP model.

**Cliff Rosenthal, Executive Director
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Introduction

The sharp downturn in the economy, unprecedented rises in household energy bills, an escalation of housing repossessions and soaring debt levels are contributing to a sharp increase in financial exclusion and fuel poverty. The credit crunch and the banking crisis have triggered a global recession, which is forecast by many financial experts to be leading to a slump with unemployment rising to 3 million or more.

Over the past four years a Community Banking Partnership (CBP) approach has been co-developed by some of Britain's most innovative players in community finance. Robustly designed Community Banking Partnerships are creating financial inclusion, alleviating debt problems, preventing a reoccurrence of debt, and showing that there can be a net gain to the partners from investing in the process. The success of this financial inclusion model is leading to a growing interest in CBP from all regions of England and from many areas of Wales and Scotland as well.

Four years ago, when the Financial Inclusion Task Force was set up, the policy emphasis was placed on pursuing three main objectives:

- i) a major increase in high quality money and debt advice services;
- ii) a significant increase in the take-up of basic bank accounts;
- iii) the provision of affordable finance on a growing scale through the work of credit unions and community development finance institutions.

In parallel with the setting up of the Financial Inclusion Task Force, seven Community Banking Partnership pathfinders in England and Wales set out with different levels of funding to pilot different methods of providing joined-up solutions to financial exclusion. While the Government has succeeded with its Financial Inclusion Programme compartmentally, service provision nationally is still operating in silos, despite the concern by the Treasury for this to be overcome.

Community Banking Partnerships have been unique as **social co-operative ventures** in that they have worked over the past four years to integrate financial inclusion programmes during a period in which the needs for the provision of integrated services has become more acute. Moreover the range of financial services needs is now increasingly acknowledged as much broader. For example, the Government recognises that financial education and money guidance advice need to be addressed. A national programme is now developing following the recommendations in the 2008 Thoresen report to the Treasury. However the target households are those on moderate income and the financial literacy services do not include those on low income.

Joined up Financial Inclusion Service Delivery – International Good Practice

In Ireland and the USA, there are integrated approaches to delivering one-stop shop advice, credit, savings, budgeting, bill payment and financial literacy. In Ireland beginning in the early 1990s, pilots to integrate money advice and credit union services were trialled. These led to the emergence of the Money Advice & Budgeting Service (MABS) which now operates locally right across the Irish Republic. Similarly in the USA during the last recession, Community Development Credit Unions (CDCUs) expanded in numbers with funding support from foundation, banks and the Clinton administration. Many CDCUs today provide a broad range of financial inclusion services and run award winning financial literacy and savings services recognised by the US Treasury, local authorities and national charitable foundations for their high quality.

Cash is no longer King – the Poor are Paying More and More

Coins and notes have always been an easy way to teach maths and to teach young people how to manage money. Unlike credit and debit cards, cash is tangible. What you don't have in your pocket or wallet, you can't spend. This shortage of 'readies' helps indicate where to draw a line. Cash works on the 'pay as you go' principle of budgeting and money management. Cash payers have always been the best customers, but not these days by major companies. Thus those without bank accounts and bank instruments to pay bills and accounts pay more for goods and services. Not just a little more, a lot more, especially when you add it all up. Just consider this list:

Energy services: low-income cash payers are commonly on prepayment meters. These are normally the most expensive form of payment and unlike direct debit customers, they don't get a 10% discount or further discount for dual fuel payment. In addition to the soaring energy price rises of 29% for electricity and 47% for gas over the past two years, prepayment meter customers can pay up to £359 per year more for the same amount of energy as a direct debit customer.

Telephone charges: not having a bank account means that landlines are hard to access or you pay more for the service. Low-income customers also lack the funds to connect a landline, so have to resort to mobile phones. They also pay premium rates to call 0870 and 0845 numbers including benefit helplines.

Clothing: budgeting for shoes and clothes is easier for those with a bank account to help spread the load. The unbanked turn to mail order catalogue firms and for many goods, pay much higher prices.

Household appliances: goods are cheaper for those with bank accounts who can use major retailers. For those outside the banking system, 'rent to own' stores provide a service but charge pawnbroker rates.

Consumer Credit: moneylenders and pawnbrokers are alternative sources of finance for cash payers, but here loan rates range from 70% to up to 365% APR. Payday lenders charge even more (see Table 1 below) with APRs recently revealed of 1200% to 4000%. Illegal lenders charge above 4000%.

Research in 2007 by Save the Children Fund and Family Welfare Association found that low-income households paid a 'poverty premium' of about £1000 a year for the following services: gas, electricity, telephones, insurance, access to cash (surcharges for ATMs) and credit.

A major challenge for Government and for the Financial Inclusion Task Force has been to identify a way to support a service that integrates provision to low-income households of the ABCDEs of financial inclusion:

- Advice
- Banking
- Credit
- Deposits (savings)
- Education

These fundamental needs are recognised by policy makers but delivery is still fragmented with DWP (Department for Work and Pensions) Growth Fund focusing on affordable credit, BERR (Business Enterprise and Regulatory Reform) concentrating on money and debt advice and the Treasury and the FSA piloting financial capability. Local authorities and social landlords are well aware that low-income household needs cover the range of these areas. Indeed Local Area Agreements emphasise the importance of cross-cutting issues and the critical strategic importance of integrated solutions. How might a one-stop shop service be provided? What have Community Banking Partnerships been able to achieve so far?

Table 1: £500 loans: Annual Cost Chart

Creditor	APR	Total Cost	Interest & Charges
Credit Union	12.7%	£535.08	£35.08
CDFI	25.4%	£570.16	£70.16
Pawnbroker	85%	£758.64	£258.64
Doorstep Lender	365%	£1904.04	£1404.04
Payday Lender	1286%	£6431.04	£5931.04

Community Banking Partnerships – a Joined up approach to Financial Inclusion

Inspired by the growing success of financial inclusion partnerships led by credit unions in Ireland and the USA, Community Banking Partnerships in England and Wales have been operating since 2005. Although the earliest pathfinder CBP project in Birmingham was unsuccessful due in part to the high cost of operating multiple shopfronts, this gap was filled by the late addition of a pathfinder in Sheffield. All seven pathfinders have made good progress in developing an integrated approach. These pathfinders are operating in six urban and three rural areas.

The established Community Banking Partnerships and their sub-regional areas include:

- **Coventry:** Coventry & Warwickshire Community Banking
- **Sheffield:** Sheffield Credit Union, Moneyline Yorkshire and Financial Inclusion Services Yorkshire
- **Merseyside:** Enterprise Credit Union and the Money Advice Budgeting Service
- **Portsmouth and South Hampton:** South Hampshire Community Banking Partnership
- **Mid Wales:** Robert Owen Community Banking Partnership
- **Devon (and Cornwall from 2009):** South West Pound
- **East London:** Fair Finance and the Money Matters Project

Partnerships developed by each CBP includes working links and cross referrals with:

33 Local authorities

55 Registered social landlords

26 Citizens Advice Bureaux

20 Advice UK agencies

28 Credit Unions

7 Community Development Financial Institutions

In the pilot period from 2005–2008, Community Banking Partnerships in England and Wales provided more than £18.5 million in affordable loans and money advice to over 9000 households. At the end of 2008, there were over 29,000 credit union members involved with CBPs.

The major breakthrough made by Community Banking Partnerships since 2004 has been in the successful piloting of Money Advice & Budgeting Services (MABs). The five pioneering CBPs in England and Wales that have succeeded in replicating a model similar to the Irish MABS in the UK are:

Enterprise Credit Union: The credit union has expanded its membership from 500 to over 5500 during the past ten years. In recognition of this success, the credit union won two social enterprise awards in the past four years. Assets for lending have grown to over £1.83 million and the credit union advances over £2.6 million in new loans annually. Enterprise CU is the first credit union in the UK to succeed in replicating the Irish MABS service. Credit Union staff provide access to money advice, debt repayment services and budgeting & bill payment help. The growing popularity of MABS has led to housing association partnerships with Knowsley Housing Trust and the Riverside Group. Enterprise CU has also been a top-performing lender under the DWP Growth Fund. In addition Enterprise CU is partnering with the Citizens Advice Bureau to pilot a Money Guidance Pathfinder with a financial capability worker. This will give credit union members a chance to identify and secure insurance, benefits, savings and pension products as appropriate.

Sheffield Community Banking Partnership: Three organisations make up the CBP in Sheffield. These are Sheffield Credit Union, Moneyline Yorkshire (a CDFI) and Financial Inclusion Services Yorkshire (a charitable company). All three organisations started trading in late 2004 from the same city centre premises and work closely operationally - sharing both resources and staff. In recent years, 10 small community credit unions in the city have agreed to merge by transferring engagements and joining Sheffield Credit Union. As a result the combined membership has increased from 600 in 2004 to over 5,000 adults and 2,500 juniors in 2009. The CBP has provided over 5,000 loans totalling £1.75m to individuals – all of whom were unable to pre-save under the traditional credit union model for loans. Other services provided by the CBP include the setting up of savings clubs in schools, money advice and financial capability programmes. The CBP is also closely linked to the city's advice network. Other key partners include Sheffield City Council and Sheffield Homes. In 2007 the success of the CBP's services helped the City Council achieve its national award of Beacon Status for 'Promoting Financial Inclusion and Tackling Over-Indebtedness'. FISY, the charitable company within the CBP, has been awarded the contract by DWP to deliver the Financial Inclusion Champions initiative across South Yorkshire.

In Rotherham, Sheffield's immediate South Yorkshire neighbour, three credit unions, the advice services, and over 30 other organisations have come together under the Financial Inclusion Project to co-ordinate and promote financial inclusion initiatives. A leading project partner is Laser Credit Union, Sheffield Credit Union's sub-contractor for Growth Fund lending. Laser also runs a very successful Rent In Advance (RIA) scheme, a partnership with the council and Robond (a bond guarantee charity) to provide loans to help homeless people access private rented accommodation. This has helped re-house nearly 200 families since 2006. The CAB has an advisor running weekly debt advice sessions from the credit union. A

borough-wide financial capability training programme is being developed. Strategic work with the council on a local response to the credit crunch has resulted in additional support for the RIA scheme and a partnership with Rothersave Credit Union to provide loans (£200,000 over two years) to people affected by the economic downturn.

Fair Finance: In East London, Fair Finance has been the pioneer of a British social enterprise model for funding a Money Advice and Budgeting Service. This Fair Finance 'Money Matters' project has been jointly supported by a consortium of six housing associations who pay to refer their tenants. In addition a Financial Inclusion Task Force Advice Fund allows other social landlord and council tenants to be advised. The project has assisted over 900 tenants, has set up debt repayment plans with a high degree of success and has saved over 800 people from eviction. Project workers are multi-lingual and run a service in Bengali and Somali. By early 2009, this London CBP had assisted tenants to manage over £8 million of non-housing debt. Rent arrears for tenants had been reduced by over £85,000, an additional £200,000 of rent debt had been agreed for repayment and a further £280,000 of rent arrears was under negotiation. The close one-to-one support provided to clients has led to a consistency of outcome with 75% of tenants maintaining their repayment plans. The housing associations have drawn on the expertise of Fair Finance to train their housing management staff in money advice basic skills and this has led to success in resolving debt cases and in setting up preventive financial inclusion services. Money Matters staff communicate with housing partners through monthly email updates and quarterly meetings to discuss and track caseloads. The success of this London MABS has demonstrated the business case for social housing investment in CBPs.

South West Pound: South West Pound is a dynamic Community Banking Partnership supported and funded since 2006 by Devon County Council, Devon Rural Renaissance and 13 Registered Social Landlords including Devon and Cornwall Housing Group, Sanctuary Shaftsbury Group, North Devon Homes, Sovereign Housing, and Westcountry Housing. The outputs in the first two years of operations indicate the potential for a partnership approach. Over 4,000 households have been supported by the service and new enquiries are growing at 200 per month. Affordable credit of over £420,000 has been advanced by Credit Unions through South West Pound and debt cases of over £5.5 million have now been handled. The core service for clients includes three hours of information, money advice and financial service support provision. Financial capability workshops and training events have been run for credit unions, registered social landlords, education providers and the adult learning population through a specially designed modular education package uniquely designed to meet the needs of the financially excluded.

Initially, the project was to focus on rural Devon but the interest from urban areas like Torbay and rural areas of Cornwall has led to the services being extended to more residents facing financial exclusion in wider areas within

the South West. The number of outreach workers has continued to increase and the company now has 18 staff. Work with rural credit unions has led to a mutually agreed merger of four Devon credit unions, including Exeter, in 2009.

Robert Owen Community Banking Partnership:

The CBP is based upon a partnership between Robert Owen Credit Union, the Robert Owen Community Banking Fund, Brecon & District Credit Union, Red Kite Credit Union, Powys County Council, Wales and West Housing Association, Mid Wales Housing Association, Clwyd Alyn Housing Association, Bro Dyfi Advice Centre, Care & Repair Powys and Powys Citizens Advice Bureau. Taking on board lessons from the Enterprise Credit Union MABS, the Monergy service was set up in 2007 to tackle both debt and fuel poverty problems. Monergy extends the MABS service by adding energy advice to the other services of money advice, credit union savings and loans and bill and debt repayment. Monergy won an award in its first year for the most innovative project in Wales reducing fuel poverty. Robert Owen CBP is also piloting with NACUW a Community Bank Account service operated by Robert Owen Credit Union with back office support from Street UK (a national CDFI). A new rent guarantee scheme service to assist low-income tenants in private sector housing with deposits is being developed with Powys County Council and will be launched in 2009. There are few major employers in Mid Wales and Powys has more than double the national level of self-employment. The CBP is developing with the Welsh Assembly a Rural Enterprise Action Programme to bring together business advice, business support and loans for the self-employed and for other forms of rural social and private enterprise. The Robert Owen CBP operates a Home Improvement Loan Fund with Powys County Council.



Award to Robert Owen CBP for Monergy.

South Hampshire Community Banking Partnership:

The CBP operates across South Hampshire covering the cities of Portsmouth, Southampton and the towns of Eastleigh, Fareham, Gosport and Havant. Portsmouth Housing Association was one of a broad partnership of organisations including South Coast Moneyline, the regional CDFI, which helped form the CBP in 2007. The CBP main role has been to build awareness of financial inclusion solutions and to improve partnership working with local authorities, credit unions, housing associations, Citizens Advice bureaux and South Coast Moneyline.

When the CBP was formed new funding was obtained from the Financial Inclusion Fund for a team of debt advisors. The CBP played a central role in helping co-ordinate the project, in organising meetings between Portsmouth CAB and Housing Associations and in setting the aims and objectives to achieve increasing numbers of referrals and to meet targets. So far over 500 clients have received debt advice.

The CBP facilitated the merger of two credit unions in Southampton to form Solent Credit Union and helped obtain a grant from Southampton Council. It has also worked with Havant Area Savers Credit Union to obtain

a loan from Havant Borough Council to fund expansion. The CBP is encouraging the credit unions to improve and build relationships particularly with their local Council and major Housing Associations and with South Coast Moneyline. The CBP also arranged for the delivery of the Chartered Institute of Housing Strategy training for the staff of local housing providers. This course has led to a sharing of best practice and to team effort by social landlords in South Hampshire to develop financial inclusion strategies.

New Community Banking Partnerships – Second Phase Development Underway

The pathfinder CBPs have succeeded in introducing and adapting the Irish MABS system to Britain by supporting each other through peer learning. This has been achieved through Action Learning Sets for managers and operational staff, funded by Esmee Fairbairn Foundation. This co-educational process has given CBP staff the confidence to design and develop integrated services and software solutions.

As a result, CBP staff are finding new ways of filling gaps in the advice market through new debt prevention and financial capability services which help households manage their money, increase their income, grow savings and where appropriate, access credit. An outcome of the action learning is an integrated decision-making methodology called OPALS (Operational Pre-programming for the Allocation of Advice, Loans and Services).

A second phase development of CBPs has been underway since late 2007. Most new projects are in the early stages of development but, as a systematic model for CBPs has emerged, the learning curve for the new regional entrants is less daunting. This second wave of CBPs includes ventures in West Sussex, East Sussex, Somerset, Kent and Fife in Scotland. Below are two profiles for the new CBPs:

West Sussex CBP: In 2006 West Sussex County Council commissioned and published a Financial Inclusion Strategy which demonstrated that there are levels of financial exclusion in the county sufficient to cause concern to policy makers and public service providers. The strategy proposed that public bodies and social housing providers should combine their efforts and establish a range of co-ordinated services to address the damaging effects of financial exclusion. As a consequence the West Sussex Community Banking Partnership Board was established in late 2007, as the mechanism to deliver the essential, co-ordinated approach. During 2008 the county-wide West Sussex Credit Union commenced operation. Significant political & financial support was obtained to acquire a shop front office in the town centre of Worthing, to appoint a manager and support staff and to acquire, **Refernet**, a

new internet-based referral system to 'join up' services. A strategy is being developed, aimed at achieving a substantial increase in debt advice services in 2009. In late 2008, the West Sussex Community Banking Partnership Board acquired the services of a co-ordinator to ensure their strategy is successfully delivered. High priority actions included hosting a seminar on fighting financial exclusion; the recruitment of pfeg (Personal Finance Education Group) to the Community Banking Partnership to prioritise work in schools in the most excluded areas of West Sussex; and funding raising for the extension of debt advice services. A longer term strategy and five-year business plan, aimed at achieving sustainability, are high on the agenda for 2009.

Somerset Development: A conference in September 2008 co-supported by Mendip Housing, South Somerset Homes, Mendip Community Credit Union and Somerset County Council has started a dialogue between the four credit unions, nine other social housing providers, Citizens Advice Bureaux, West Somerset Advice Centre, The Primary Care Trust, The County Council and District Councils, Wessex Reinvestment Trust and the Community Council for Somerset. The focus of the joint exploration is on the potential role of a Community Banking Partnership in addressing financial inclusion in Somerset. The chair of Mendip Community CU was nominated by FOCUS (Forum of Credit Unions in Somerset) to represent credit unions on a CBP Steering Group and he was also able to attend the National Association of Credit Union Workers Action Learning Set programme for Community Banking Partnership Managers. The Community Council for Somerset has reported on a stakeholder consultation. The planned outcome is to set the parameters and process for the commissioning of a Business Plan for a Somerset CBP in early 2009.

Community Banking Partnerships – Lessons from the Pathfinders and Pilot Services

There have been nine key lessons from the first phase development work of Community Banking Partnership Pathfinders. These learning points are important for other credit unions, community development finance institutions, money advice agencies, registered social landlords, government bodies and funders to take on board. The main lessons are:

- i) Money advice, debt advice and budgeting advice:** specialist 'in-debt' advice is what CABs and Advice UK members excel at. Thus cross-referral partnerships with CBPs make good sense, as credit unions and CDFIs can provide **debt prevention** services (either in-house or with a non-profit or charitable affiliate company). Debt prevention services can include budgeting advice, financial education in relation to savings and money matters, and other forms of non-specialist money advice.

Lesson: debt prevention services are needed to complement specialist debt and money advice services.

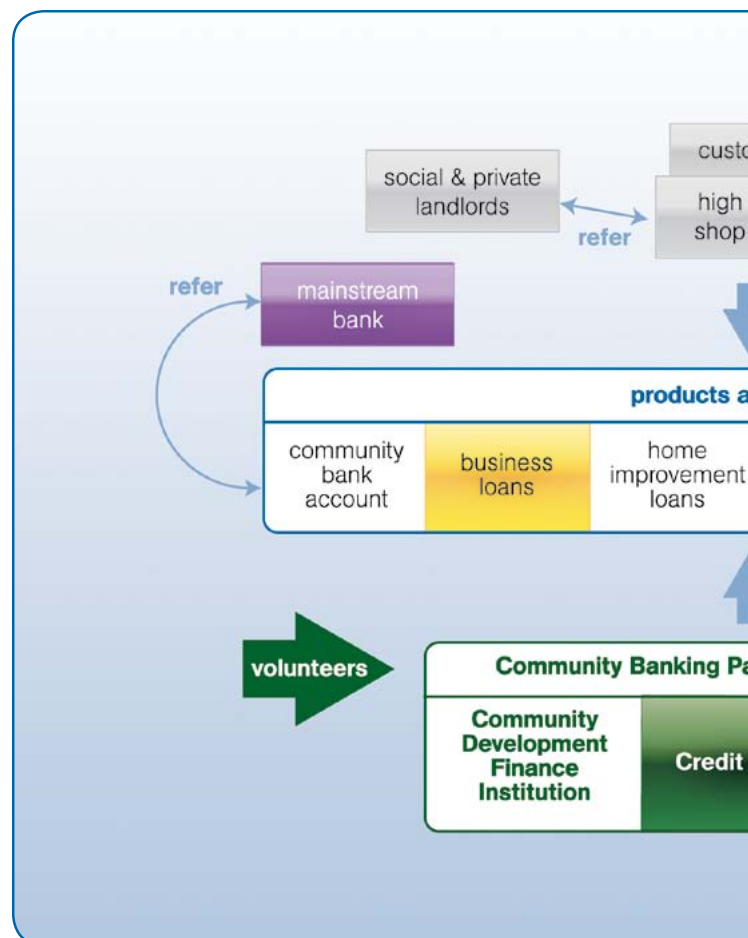
- ii) Monergy – energy and budgeting advice:** the Birmingham CBP Pathfinder piloted an extension of MABS called Factor 4 that sought to combine money advice and energy advice. This pilot was successful in many ways but did not integrate these services as effectively as originally planned. However the Robert Owen CBP has drawn lessons from the Factor 4 pilot and experimented with integrating budgeting advice and energy advice through a new service run jointly by Robert Owen Credit Union and a local debt advice agency. This Monergy service has been a key new innovation.

Lesson: effective integration of money guidance and budgeting assistance with energy advice is crucial. Specialist debt advice is best provided in a dedicated way by CAB and Advice UK partners. Financial capability advice can work well within the credit union or linked via a separate non-profit affiliate such as Financial Inclusion Services Yorkshire.

- iii) Management and governance – the need to evolve affiliated company models:** a number of US Community Development Credit Unions (CDCUs) have developed affiliated companies to separate out financial literacy and advice services from the business of the credit union. CBPs have shown how this can work and successful models are emerging of affiliate non-profits or charities (for advice) linked to a credit union, a community development finance institution or both. These management and governance structures take time to develop and evolve. Sheffield Credit Union, Financial Inclusion Services Yorkshire and Moneyline Yorkshire is an example of three affiliated companies. Originally they were separate but shared the same office. Co-developing the same mission has led to the three

companies finding ways of integrating as a CBP in a gradual way that now feels comfortable to the Directors of the different businesses. The prize for success in Sheffield has been seen as access by each CBP company to a broader range of expertise from a network of Directors with combined in-depth talents. However this objective continues to be a

The Community Banking part



challenging one for CBPs and will take time to be implemented as the Sheffield experience has shown. To achieve an effective management and governance structure also requires training for volunteer board members to understand the benefits of a tighter way of operating a set of companies seeking to deliver the ABCDEs in a more efficient way. There are precedents to draw on since many housing associations operate group structures effectively. NACUW and new economics foundation have produced a report on these models: *Community Banking Partnerships – Legal Structures that Work*.

Lesson: suitable legal models will take time to develop because it takes time to build trust among the partners and because of the challenge of establishing, managing and governing company affiliates.

(iv) Sustainability – the need for a balanced portfolio:

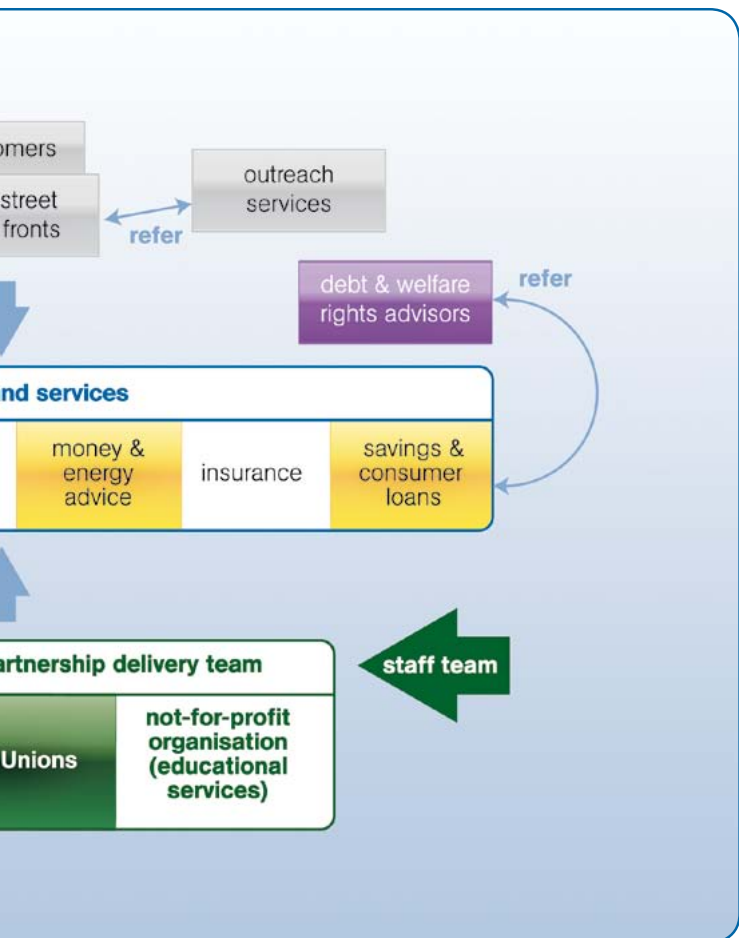
group legal structures help the CBPs to obtain operational sustainability as it is relatively easy to share back-office staff and office overheads with a non-profit or a charity in the group. Additionally it is possible transparently to separate the commercial business of lending from the non-profit advice services that can operate either by grants, service level agreements or a mixture of the two by using separate companies.

(v) Partnerships and Service Level Agreements – the business case:

debt is costly to social landlords, utility companies, local authorities and other creditors. Fair Finance and South West Pound have established strong partnerships with local housing associations and local authorities. These two CBPs have successfully piloted service level agreements. The total cost of evictions for a social landlord and other statutory services is £6000 or more. Research carried out by Community Finance Solutions has shown that projects like CBPs can save social landlords on debt collection bills, solicitor’s costs, court and bailiffs fees, and loss of income from voids.

Lesson: A number of social landlords are now finding that supporting CBPs through service level agreements is less expensive than a sole reliance on litigation.

Partnership: A social co-operative



However, for the credit unions and the CDFIs, operational sustainability requires that:

- lending should be priced more highly for risk
- loan guarantee funds can also be set up to manage and cover risk
- a portfolio of larger loans over longer terms should be developed to cross-subsidise the very high transaction costs of small, short term loans, such as those supported by the DWP Growth Fund.

Lesson: clarity about the appropriate social business development strategy and delivery for different aspects of the partnership service can be best structured operationally and for accountability to funders by having a clear legal separation of credit provision from advice services.

vi) Basic Bank Account limitations – the need for Community Bank Accounts:

basic bank accounts have been a real step forward in helping reduce some aspects of financial exclusion. However the banks are not particularly keen on providing them as in most cases they lose money on this service. For the MABS and Monergy projects developed by CBP pathfinders, a major service gap has been the lack of a low-cost bill and debt payment facility for customers. CBP projects over the past two years have been working with Street UK and Barclays Bank to develop a better service. The result is the emergence of a new Community Bank Account system that Coventry Community Banking and Robert Owen CBP are piloting. Effectively, this makes Direct Debits available to people who do not have bank accounts, with the benefit of direct debit discounts.

Lesson: community bank accounts are essential for those who cannot get, or cannot manage, basic bank accounts.

vii) Securing adequate resourcing is essential:

the CBPs that have been successful in securing adequate investments for implementing specific areas of their business plans have generally been more successful with these initiatives. Working jointly on proposals with other partners adds significantly to the strength and success of this. Robert Owen CBP was able to secure resources much more easily for its Monergy project through joined-up design work with an independent money advice partner. This led on to the winning of a national award for innovation.

Lesson: adequate resourcing is essential to partnership work and can achieve a good value investment.

viii) Co-referral system benefits and reducing marketing costs:

formalising partnership arrangements can be a successful methodology for the cost-effective recruitment of new members and new business - both for community finance organisations and for advice agency partners. An

effectively structured CBP needs to be designed to ensure that each key stakeholder organisation has a vested interest in joint success. To achieve this both at the design stage and in practice, clear roles and responsibilities for the founding partners have to be pre-planned and jointly agreed. The approach needs to be refined operationally of course but should, after a successful pilot period, lead to mutually beneficial outcomes for the partners in terms of service quality and turnover growth. The work of CBP is showing how low-income household members can secure the package of ABCDE services that they need to escape financial exclusion. With Tudor Trust funding, NACUW has developed a 12-unit training programme to teach stakeholders how to design effective, services and achieve joint delivery through the partnerships.

Lesson: appropriate training and learning networks are central both to ensuring that the partners understand each other's needs and capacities and to facilitate co-operation between partners.

ix) Office costs – keep overheads low: as banks and building societies know, branch outlets are notoriously expensive. Birmingham CBP found this

burden unsustainable. Only organisations with a very high turnover of business can afford to carry and resource these overheads. The success of Sheffield CBP in bringing together a credit union, a CDFI and an advice agency partner has shown how the sharing of premises can cut back the respective costs for each organisation. The Council or a social landlord can make property available at reduced lease costs or a peppercorn rent. Indeed this could be a major source of support for a CBP in the early years. In some areas like Merseyside, regeneration agencies have assisted the CBP to secure funds to buy premises; but selecting the right location is critical. Learn from the competition. Payday Lenders go for limited square footage in good locations as a compromise between office size and maximum cost-efficiency. ICT innovation in newly designed projects may also offer a means of keeping overheads low.

Lesson: business planning and the availability of appropriate capital resources are a pre-requisite for success. Securing affordable premises in the right location is essential.

The Community Banking Path for Financial Inclusion and Operational Sustainability

The Credit Path model pioneered by CDCUs in the USA provided guidance to British CBPs for a robust strategy to link core financial services and advice services with a Community Bank Account (CBAccount) to achieve operational sustainability. There are four stages of 'community banking services' development on the Credit Path. As a methodology the model is designed to promote financial inclusion for low-income members and to achieve financial sustainability for the credit union. CBPs have transformed the four stage CDCU system into a Community Banking Path. The stages and their relevance to the development of CBP credit union services are as follows:-

Stage One – Money management services: financially excluded households are frequently in debt to high cost lenders and not in a position to save. Help can be provided by the CBP offering a CBAccount so that new and existing members can be assisted to manage their money more easily, to pay bills and to repay debts with advice from a MABS or Monergy service.

Stage Two – Lending services: CBPs can appraise the ability of low-income members to service a loan based on the track record established by the customer with the Stage One money transmission services. This helps limit the risk of bad debt, especially in a recession, since credit can be structured carefully to a level that the CBAccount performance records indicates to be affordable.

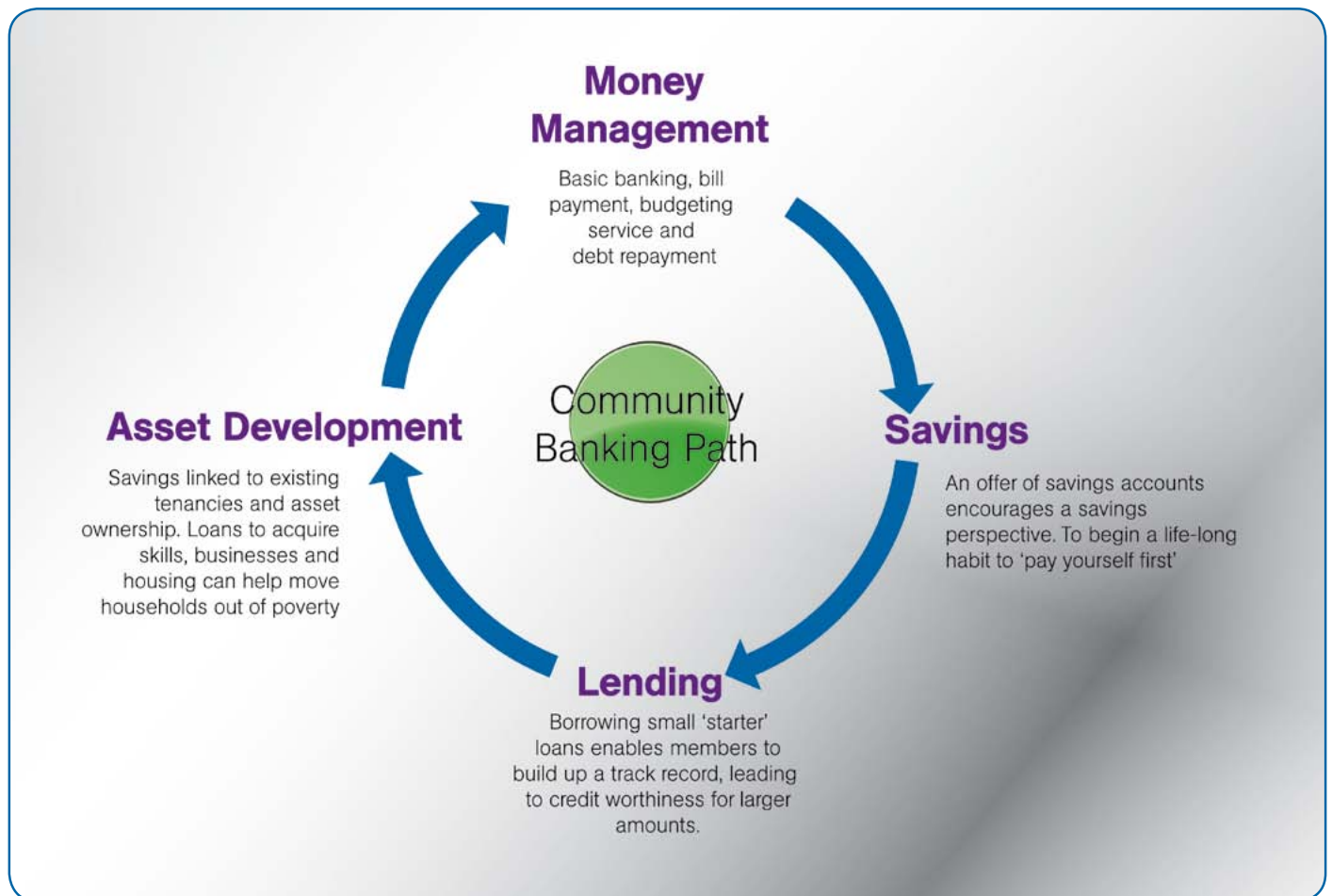
Stage Three – Savings services: as the experience under the Financial Inclusion Fund has grown by CBPs delivering both MABS and low-cost loans, members assisted have been able to get out of debt with

moneylenders and have begun to develop some savings. This third stage enables households to save with the credit union regularly both to meet expected future commitments and unplanned bills, and to build up personal assets.

Stage Four – Development services: Community Development Credit Unions (CDCUs) in the USA achieve operational and financial sustainability by the development and delivery of medium and longer-term loans that build asset wealth among their members. Assets can include educational qualifications and skill building, business development or other indicators of household wealth. A decade ago, US CDCUs focused these services on home improvement finance and enterprise development loans. This strategy has been successful in the USA and is now being implemented by a growing number of CBP Pathfinders.

A good example of Stage Four service development is South Coast Moneyline (SCML). Founded in 2000, SCML provides consumer, housing and business loans for the residents of Hampshire, Surrey and Sussex. SCML has extended its partnership through strategic links and funding support from a variety of sources including local authorities, the Regional Development Agency (SEEDA) and housing associations.

SCML consumer loans are advanced up to £5000, for business up to £15,000 and home improvement loans (Home Trust Loans) are available up to £25,000. By early 2009 over 8500 people had been provided with advice and 3000 loans, amounting to a total investment of £2.7 million. The average personal loan is £500 with interest



rates ranging from 27-32% APR. Home improvement loans are offered on a secured basis at a rate of 5.1% APR; a typical loan advanced is £4,500. SCML in 2006 set up a Southern Home Loans Partnership with five local authorities in the South East. This service is now extended to 15 local authorities with access to a three-year capital and revenue pot of £3 million. SCML also works with other small business investor partners in Inclusive Finance (a Community Interest Company) to co-ordinate delivery of enterprise loans in the South East. SCML is also currently exploring asset development, working with other social enterprises and potentially seeking investment in a major new regeneration project. A number of CBP pathfinders are interested to learn from the SCML experience in developing home improvement finance. Robert Owen CBP is developing a similar service with Powys County Council and Care and Repair Powys.

Another good example of Stage Four provision is Coventry and Warwickshire Community Banking Partnership, where lending to the self-employed and micro-enterprise has been central to its core service. Activity in this area is increasing in the current climate. The CBP partnership consists of all seven credit unions in the sub-region, Coventry and Warwickshire Reinvestment Trust (CWRT – the local CDFI), Coventry Citizens Advice, all six local authorities in the sub-region and Coventry and Warwickshire Co-operative Development Agency. CWRT began its micro-credit service in 2005. Over the first three years the CDFI has loaned out £1.4 million to 144 self-employed people and small businesses.

CWRT and the credit unions have a unique partnership relationship. They have successfully bid for finance as a CBP consortium, they trade from the same premises, and they present themselves to the customer as one organisation. In relation to financial inclusion services, Coventry CBP has four budgeting advisers working with the credit unions and has successfully piloted Heartpay, a bill paying system.

In practice the Credit Path stages are not necessarily linear but form the integrated package of services that are needed if people are to be helped out of financial exclusion and ultimately into greater self-reliance and asset ownership. This is illustrated in the diagram above.



Table 2: Southern Housing Group – Cost Benefit Findings for Financial Inclusion

Financial Inclusion programme - investment costs yearly		£92,582
Tenants assisted yearly		160
Positive outcomes yearly		96
		Cost benefit to RSL yearly
Evictions prevented yearly	14	£97,248
Court hearing prevented yearly	14	£37,344
Other satisfactory outcome yearly	67	£5,578
Total	96	£140,170

Net benefit of the financial inclusion programme **£47,588**

The CBP Business Case – the Strategic Need for a National Programme

According to Citizens Advice, debt problems are often due to changes in circumstances such as unemployment, loss of overtime, escalating housing and fuel costs, ill-health, divorce and separation. If advice and intervention is postponed, small debt problems can escalate out of control leading to collateral economic damage for landlords, local authorities, other creditors and Government. The unique pathfinding journey of the seven Community Banking Partnerships has shown that, as in Ireland and the USA, a joined-up solution to financial exclusion problems is both feasible and practical. Moreover it is only through a joined-up methodology that debt problems can be systematically tackled. Social landlords are discovering this and that indeed there is a business case for investing in Community Banking Partnerships.

To assess the untapped social enterprise potential for CBP services, Community Finance Solutions at the University of Salford has appraised the cost to be saved by social landlords through a strategic intervention. The calculation has been done by using comparative data provided by Southern Housing Group on the financial impact of their successful financial inclusion programme. Table 2 gives a compelling indication of the business case potential, **ie a 51% financial return on investment** in addition to the social returns. A national CBP programme, implemented through strategic partnerships with social landlords and local authorities, could reduce debt and deliver ongoing financial inclusion services to prevent a reoccurrence of debt problems. The information in Table 2 shows that debt mediation work through CBP services can be much less expensive than an over-reliance on costly court action and litigation.

The seven Community Banking Partnerships are ploughing a rich furrow of social justice possibilities. To help skill up existing CBP staff and Board members and to introduce new projects and partners to CBP methods, a national

Community Banking Partnership training and leadership programme has been developed with funding from Tudor Trust and Esmee Fairbairn Foundation. Legal and operational structures for the partnerships have been extensively researched.

Given the diversity of geographical circumstances, the work of Community Banking Partnerships, locally and regionally, needs to be allowed to grow in diverse ways as each area has a different set of credit union, CDFI and money advice partners to seek to bring together with social investor partners – principally social landlords and local authorities to date. It is increasingly clear that banks, building societies and utility companies can gain from supporting CBP development. If CBP services can reduce rent arrears for social landlords, there is also additional potential for reducing debt and preventing repossessions by mortgage lenders.

The seven CBP pathfinders are building the social enterprise road as they travel. There is plenty of room for many more fellow travellers and social investors. To make this possible and to build organisational capacity and the scope for scaling up services, a national social investment programme should be resourced. The growing recession makes this an urgent need for action.

Community Banking Partnerships offer a sustainable and just system of finance as part of an economic development programme to address the current recession. The CBP focus over the past three years has been to work with partners to integrate a system for the delivery of money advice, debt advice, savings and loans. They have found in practice that a Community Bank Account is an ideal way to harness the co-delivery of these ABCDE services. Diversification of the finance sector through development of a stronger, third-sector financial solution offers a real benefit for the most marginalised, who remain most vulnerable to the impact of recession.

Community Banking Partnership Case Profiles – ABC Services in Action

Multiple Debts

Yasmina is a lone parent with a disabled son and works as a cook in a restaurant. She sought advice from her local CBP as she could not pay her Council Tax. She had fallen behind with a number of bills and run up multiple debts on store cards, credit cards, a bank loan, a finance company loan and with a catalogue company. With help from the CBP budgeting advisor, Yasmina was able to set up a payment arrangement for the Council Tax and get back on track with her rent and utility bills. In partnership with a debt advice agency, the CBP was able to help Yasmina set up a repayment plan with affordable monthly amounts to her unsecured creditors.

Ill-Health and Hardship

Brian is 49 and approached the CBP for a credit union loan to help repay debts. He had lost his job 18 months ago due to ill-health from diabetes. Since then he has had a stroke and can no longer work. Despite his deteriorating health, he had been recently turned down for Disabled Living Allowance. He cannot secure a hot meal as his cooker does not work and is worn out. The CBP debt advisor lodged a successful appeal to secure the Disabled Living Allowance. This enabled Tom to join the credit union and begin to save. The CBP Money worker arranged a hardship grant from British Gas Energy Trust to replace his cooker and also set up a Community Bank Account for Brian to have his benefits paid into the credit union and to pay his insurance and other bills. With a higher level of income, Brian has been able to get a small credit union loan. He has repaid this, saved more in the credit union and secured a second loan. His health has improved, he has resumed playing music and his band recently came second in a competition.

Fuel Poverty

Carol works for the Council and joined the payroll deduction service promoted by the CBP. Her husband has a long-term illness and they have five children. They are tenants of a private landlord and they approached the CBP for help with debt problems and their exceptionally large annual fuel bills of £2400. Their home lacks insulation and has an open fireplace for living room heating and electric storage heaters that are very expensive to run for housebound people. The Money worker helped the family claim an energy efficiency grant of £2600 to provide a gas central heating system and insulation. The landlord agreed to pay for additional radiators. The improvements have enabled the household to almost halve their energy bills. The savings enabled the family to save with the credit union and to repay their debts completely. Her husband's health has improved and he has begun to work now part time again as a carpenter.

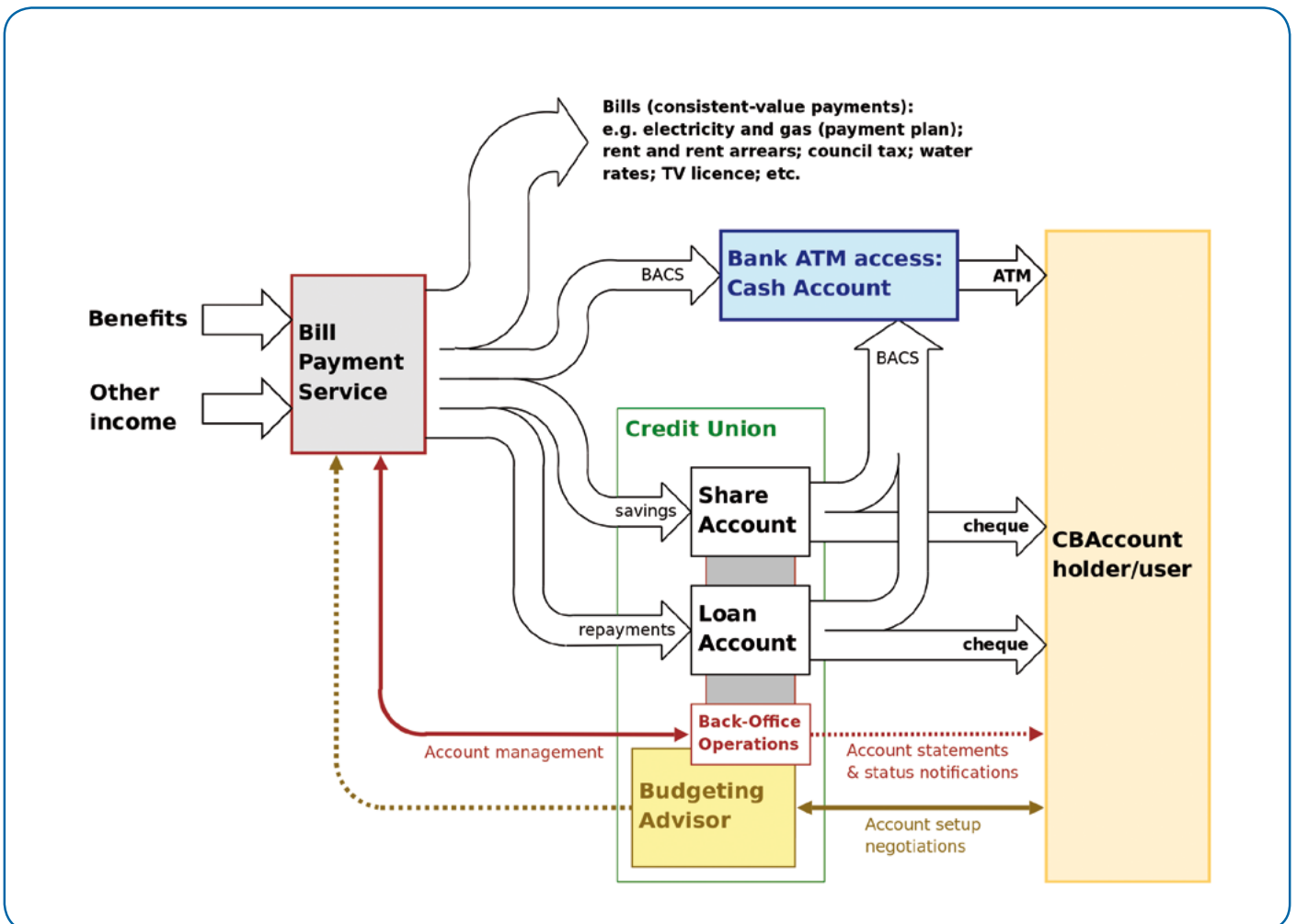
Local authorities are beginning to see that the same integrated methodology for financial inclusion partnership delivery can be extended to link up home improvement and energy advice to better support and deliver affordable home improvement lending. Some CBPs are pioneering this field and also expanding work in relation to micro-credit and advice services for the self-employed. It is evident that a Self-employment Loan Fund (SELF) Partnership could emerge from this work simply by using the CBP methodology of OPALS for this parallel set of personal lending needs. With the economic downturn deepening, these joined-up local regeneration models for personal lending, housing lending and enterprise lending, linked to advice and support, should be of interest to the Office of the Third Sector, the Department of Energy and Climate Change, the Treasury, Regional Development Agencies and the Welsh Assembly

In the USA, as part of its fiscal stimulus to assist local economic regeneration, the Obama government has approved a 100 per cent increase in funding support for Community Development Finance organisations to expand their community banking services in 2009–10. The Labour Government should take similar action. Community Banking Partnerships offer a dynamic sub-regional delivery system.





The Community Bank Account



Community Banking Partnerships in Britain

CBP Organisations	Address	Contacts	Telephone	Email
Coventry & Warwickshire CBP	CWCDA, Doe Bank Building, Doe Bank Lane, Coventry CV1 3AR	Mandy Shine Mike Hoyland	02476 633911	m.shine@cwcd.co.uk
Enterprise CU MABS	Wynsford, 31 Hall Lane, Huyton, Merseyside L36 6AX	Karen Bennett Irene Dillon	0151 489 0072	enterpriseunion@aol.com
Fair Finance Money Matters	47 Ben Jonson Road, Stepney, London E1 4SA	Faisel Rahman	0207 780 1777	faisel@fairfinance.org.uk
Fife CBP	Fife House, North Street, Glenrothes, Scotland KY7 5LT	Susan Dryburgh	08451 555555	susan.dryburgh@fife.gov.uk
Robert Owen CBP	26 Market Street, Newtown, Powys, Wales SY16 2PD	Mick Brown Rina Clarke	01686 623741	rina@romcul.co.uk
Rotherham CBP	The Spectrum, Coke Hill, Rotherham S60 2HX	Jane Woodford	01709 726896	jane.woodford@varotherham.org.uk
Sheffield CBP	6 The Gallery, Castle Market, Sheffield, S1 2AJ	Eric Thompson Ken Dunn	0114 276 0787	erichompson@fisy1.co.uk
Somerset CBP	Freepost SWB 10777, Glastonbury BA6 9ZZ	Terry Clay Kim Robinson	01458 831405	terry.e.clay@googlemail.com
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South West Pound	Rosemary House, Market Street, Okehampton, Devon EX20 1HN	Kevin Osborn Steve Opie	01837 658120	kevinosborne@devonpound.com
Street UK	12-14 Regent Place, Birmingham B1 3NJ	Martin Hockly	0121 230 1060	martin.hockly@street-uk.com
West Sussex CBP	13 Crescent Road, Worthing, West Sussex BN11 1RL	Jon Stuart Jenny King	01903 237221	jon.stuart@j5consulting.biz

Community Banking Partnership – Support Bodies

NACUW (the National Association of Credit Union Workers) is the professional association for credit union workers and volunteers. NACUW members support the majority of credit unions in Britain today and it is the movement's lead organisation for delivering accredited training. NACUW works with all credit union trade bodies and provides advice to government and the FSA on improvements to regulations and legislation.

nef (the new economics foundation) is an independent think-and-do tank, which aims to improve quality of life by promoting innovative solutions on economic, environmental and social issues. As a 'do' tank nef designs and runs practical initiatives that involve people more directly in tackling their own problems and needs. nef works in partnership with academia, civil society, government and business, in the UK and internationally.

Rebuilding Society Network is a national CDFI whose purpose is to support innovative approaches to sustainable community development. It has led the research and development on the CBP Monergy service and it is researching and developing with nef a model for sub-regional Community Energy Partnerships – a social co-operative venture to reduce fuel poverty and green house gas emissions. RSN is also developing a system of Mutuals for the Self-employed. nef and NACUW have agreed that RSN should have an ongoing research and development role for supporting and mobilising social investment for Community Banking Partnerships.

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