# Towards inclusive service delivery through social investment in Scotland

## An analysis of five sectors, with particular focus on financial services

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# Introduction

This report has been prepared for the European Commission Horizon 2020 funded project RE-InVEST: rebuilding an inclusive value based Europe of solidarity and trust through social investments. The economic crisis of 2008 has impacted across Europe in multiple ways through unemployment and changing labour markets, poverty, and reductions in service provision. The RE-InVEST consortium is exploring the social investment strategy of the European Commission in response to the financial crisis of 2008 and its impact on vulnerable groups.

The RE-InVEST consortium is looking at the impact on human rights and capabilities across 12 countries (13 regions) covered by the project. RE-InVEST as a project looks to provide building blocks based on solidarity, trust and social investment. An important aspect of this process is giving space to vulnerable groups through participatory methods and a crossing of knowledge through lived experiences. This is conducted through the Participatory Action Research with Human Rights and Capability approaches.

This research explores the experiences of people in recovery from addiction and their use of financial services. This area of engagement can be seen as crucial to any approach to social investment – without access to financial services a social investment approach to addressing poverty and inequality will be significantly constrained.

# Acknowledgements

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We would also like to thank all those who took part in Stakeholder interviews. In addition we would like to thank all of the members of the group. Without them this project would not have been possible within commitment and openness within this project. This report is dedicated to them.

# 1. Social investment in Scotland

Social Investment has been identified as a priority at the EU level since 2013.

> *'It [Social Investment] means policies designed to strengthen people's skills and capacities and support them to participate fully in employment and social life. Key policy areas include education, quality childcare, healthcare, training, job-search assistance and rehabilitation.'*[1]

Across the EU there are tensions between what is understood regarding provision of services supporting people's social rights and the economic process of markets within which member states are operating.[2]

The way in which social policy is developed and implemented has changed significantly over the last 20 years in Scotland. Central to these changes was the creation of the Scottish Parliament in 1999 and the devolution of a range of policymaking responsibilities to the Parliament. Scotland is affected by policies that are both devolved and reserved. Therefore, when examining public investment it is important to consider social investment at both UK and Scottish levels. Analysis has shown that although some figures may present the UK in a positive light, in general the UK economy is not working for the majority of the population.[3]

Currently, UK GDP (at constant prices) is 7% higher than what it was just after the financial crisis hit in 2008. However when adjusted for the UK's growing population and income from overseas, national income per head had barely grown.[4] Moreover, evidence shows that the proceeds of growth have not been evenly shared. Median household disposable income has been flat since around 2005, meaning that half of all UK households have seen no meaningful improvement in their incomes for more than a decade.[5]

Aggregate investment in the UK has also been a key issue. Investment in the UK has been lower than that for most other comparable economies, and has been declining for the past 25 years. Public sector expenditure as a percentage of Gross Domestic Product has been higher in Scotland since 2009 than in the UK as a whole.

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1 European Commission (nd) Employment Social Affairs and Inclusion, http://ec.europa.eu/social/main.jsp?catId=1044&langId=en

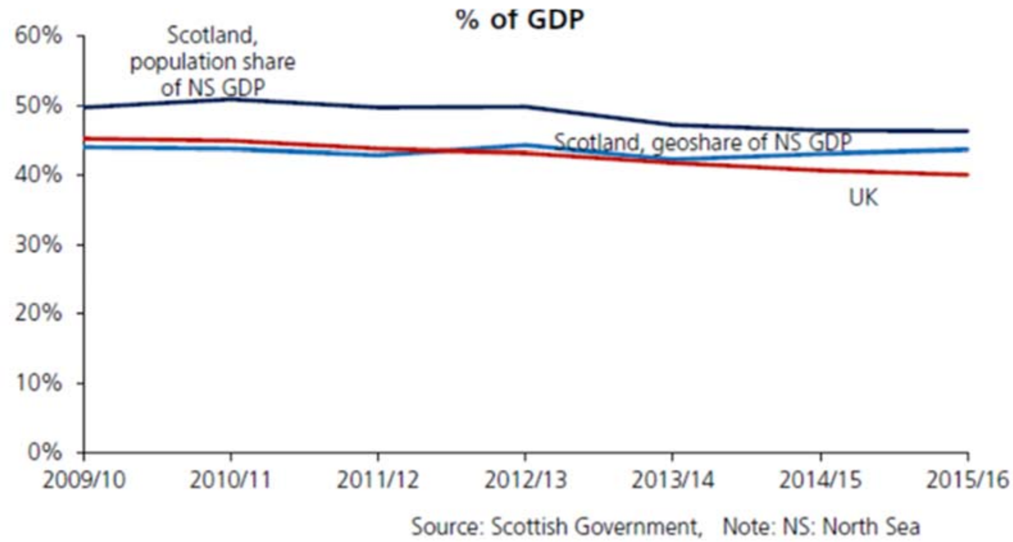
2 Van Lancker, A. (nd) European Policy Framework.

3 Jacobs, M., Stirling A., Colebrook, C (2016) 'Out *of Shape Taking the Pulse of the UK Economy'* Institute for Public Policy Research.

4 Haladane (2016) cited in Jacobs, M., Stirling A., Colebrook, C (2016), '*Out of Shape: Taking the Pulse of the UK Economy'*, London: Institute for Public Policy Research.

5 Jacobs, M., Stirling A., Colebrook, C (2016) 'Out *of Shape Taking the Pulse of the UK Economy'*, London*:* Institute of Public Policy.

**Figure 1.1 Public spending in Scotland and UK, 2009/10 to 2015/16**




* Unison (2016) 'Impact of Austerity on Scotland: Damage Done and Routes to Recovery'

Despite this Scotland has not been immune from the effects of the financial crisis. However, its impact has been smaller on Scotland compared to the UK. Figure 1.1 shows that in the period following the start of the financial crisis, both including and excluding the impact of North Sea oil revenues, the decline in Scottish GDP was somewhat less than for the UK. There are a variety of reasons for this. Scotland entered economic recession somewhat later than the UK as a whole due to a differential pattern of economic downturn. For example, even though public spending has been cut, and jobs were lost in the public sector, the public sector itself did not go into recession in the period above. Also, in the construction sector, where the recession was deepest, the recovery was strongest.

**Table 1.1 The decline in GDP in previous recessions, Scotland, UK and OECD***

| **Annual average, real terms, percentage points** | | | |
|---|---|---|---|
| | **Scotland** | **UK** | **OECD** |
| 1973-1975 | -3.4% | -4.0% | +2.4% |
| 1979-1981 | -3.0% | -3.0% | +3.5% |
| 1990-1991 | +0.3% | -1.4% | +1.5% |
| 2007-2009 | -3.4% | -4.6% | -3.2% |

* Ibid
**Source** Scottish Government, ONS and OECD National Accounts.

Table 1.1 shows the impact of different recessions over the last 35 years. The most recent recession is no different in terms of impact to previous recessions. What is significantly different however, is the impact it has had on the advanced economies as a whole as the OECD figures illustrate.[6] This shift illustrates the global impact of the 2007-2009 crisis, which in turn has limited and the ability for individual countries to recover more.[7]

6 Ibid.
7 Ibid.

# 2. Overview of national investment in sectors in Scotland

## 2.1 Early Childhood Education

In Scotland, Early Childhood Education and Care (ECEC) has been a focus of significant policy attention for a number of years. An early focus of the Scottish Executive's Social Justice Strategy was the development of an integrated childcare strategy.[8] In 2011, as part of an overarching Early Years Framework (EYF), The Early Years Change Fund was established. The EYF involved the National Health Services as well as Scottish Government and local authorities. The role of the EYF has been to support a focus on early intervention and prevention. Over the period of 2012-2015, the Scottish Government committed £44 million; the NHS £117 million and local government £105 million.[9]

This was in recognition of the need to focus on this area to improve outcomes across a child's life. Evidence from Scotland demonstrated the value and need for this type of social investment to support young children improve capabilities. Modelling by the Scottish Government indicated that short term costs from investing in early years and early intervention interventions from pre-birth to aged five showed the potential for net savings of up to £37.4k per annum per child for children with severe difficulties and approximately £5.1k per annum per child for children with moderate difficulties in the first five years of life.[10]

At local authority level, there has been the implementation of the Getting it Right For Every Child (GIRFEC) practice model to assist with supporting families with their child's wellbeing. In Scotland these policy approaches (and resources) has certainly been far reaching and reflects an approach that focuses on the need to enhance resilience, and to improve capabilities. However, one particular area upon which we need to critically reflect is investment in childcare. Childcare has been a longstanding policy priority in Scotland, both to enable parents to participate in the labour market and for children to experience high quality early years provision. Indeed, there have been increased commitments to childcare. For example, the Scottish government introduced provision for three and four-year-old children to receive 600 hours of free early learning and childcare every year.[11] This has recently been followed up by a pledge to increase this to 1,140 hours by 2020. Despite this however, evidence illustrates that there are disparities in terms of accessing this provision, with some local authority areas unable to meet this level of provision.[12] Research also shows disparities between urban and rural areas and for those who live in disadvantaged areas.[13]

8 Scottish Executive (2001) *Social Justice: A Scotland Where Everyone Matters*, Edinburgh: Scottish Executive.

9 Scottish Government (nd) 'Early Years Change Fund' http://www.gov.scot/Topics/People/Young-People/early-years/leadership

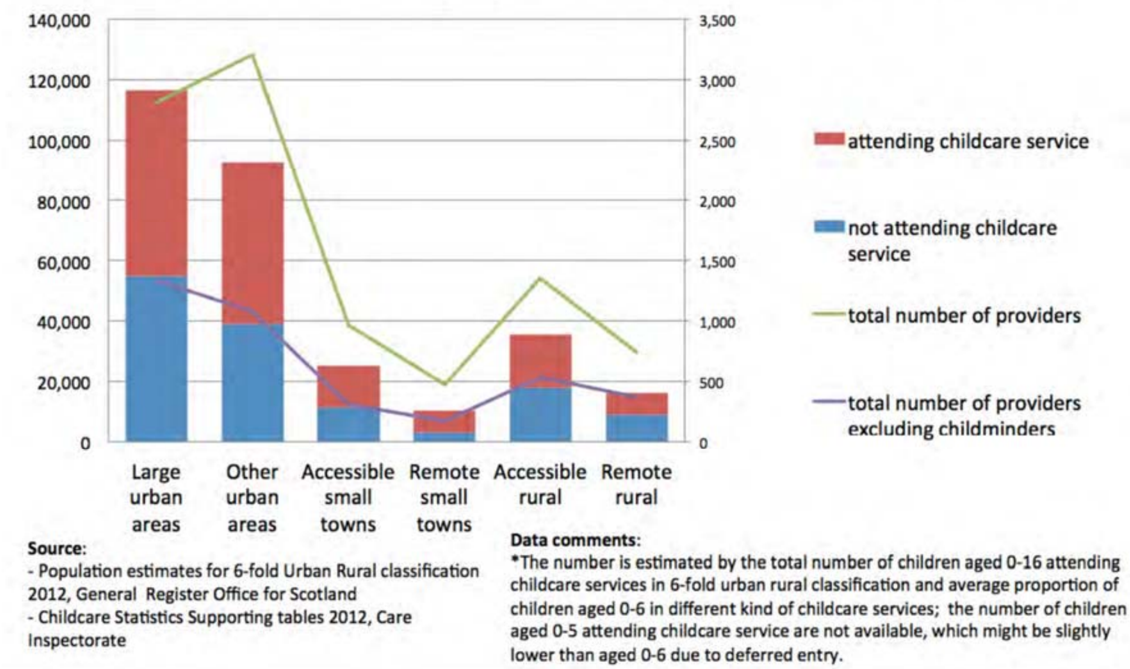
10 Scottish Government (2010). The financial impact of early years interventions in Scotland: joint ministerial foreword. http://www.gov.scot/Topics/Research/by-topic/children-and-young-people/EarlyYears

11 Scottish Government (nd) '600 hours free childcare' http://www.earlylearningandchildcare.scot/600-hours-free-early-learning-and-childcare/

12 Fair Funding for our Kids, evidence to Education and Skills Committee, UK Parliament, December 2016.

13 Childcare Commission (2015) 'The total number of children aged 0-5 attending all kinds of childcare services and the total number of providers (public, private and voluntary in rural and urban areas in Scotland' p. 88.

**Figure 2.1** **The total number of children aged 0-5 attending all kinds of childcare services and the total number of providers (public, private and voluntary) in rural and urban area in 2012 in Scotland**




In order to improve the capabilities of vulnerable households in terms of outcomes for them and their children, a greater investment is needed for affordable and high quality childcare provision. This will assist with interaction with other policy areas such as labour market access and help reduce other inequalities such as attainment rates at school.

## 2.1 Health

Good health is crucial for people to be able to realise their capabilities and one that is widely recognised across Scotland. For example NHS Health Scotland states that

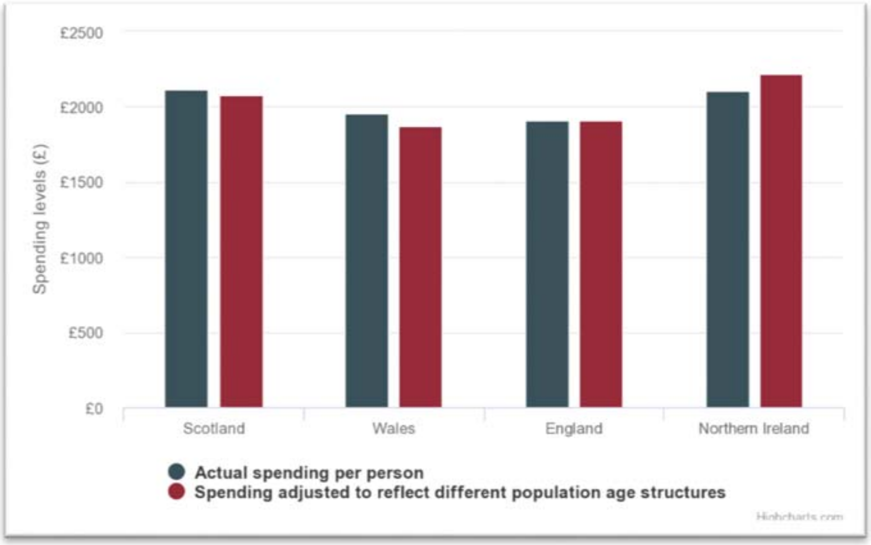
> *'The right to health is a fundamental human right. It means the right of everyone to the highest attainable standard of physical and mental health. The existence of health inequalities in Scotland indicates that the right to health is not being enjoyed equally across the population.'*[14]

The recognition of inequalities acknowledges that the social determinants of health and the impact of other aspects of an individual's life and circumstances can affect their ability to achieve good health. With regards to social investment this can be seen as recognition of the need to addresses the underlying causes of ill health and the need to provide access to high quality health care services.

Health spending in Scotland is proportionally higher per head in comparison to England and Wales although lower than Northern Ireland[15] as can be seen in Figure 2.2 below.

14 NHS Health Scotland (2017) '*The right to Health*' http://www.healthscotland.scot/health-inequalities/the-right-to-health
15 Dayan M (2015) 'Health spending across the UK nations: Who decides how much?' Nuffield Trust briefing, 10 April 2015. https://www.nuffieldtrust.org.uk/resource/health-spending-across-the-uk-nations-who-decides-how-much

**Figure 2.2 Health spending per person across the four countries of the UK**




Because the allocation of funding for Scottish healthcare comes from the UK budget as a whole, there has been an overall decline in spending. However the devolved administration has control of how the budget is prioritised and distributed and this accounts for differences between Scotland and England. For instance, in Scotland, the NHS budget was cut by 1% in real terms between 2009/10 and 2015/16, but local government budget cuts were less severe than in England.[16]

Despite the levels of spending, addressing need and providing adequate services remain fundamental challenges. Since the financial crisis, healthcare in Scotland has experienced many reforms and changes. These have included a significant focus on prevention, of tackling health inequalities underpinned by the principle of focusing 'upstream' in policies and delivery, such as addressing the economic, social and environmental causes of health inequalities, which is more seen by policy makers as more cost-effective.[17]

Despite these measures, significant health inequalities still exist in Scotland and will require more intensive approaches and extra resources to tackle the scale of the problem. Many people report insufficient access to the services they require, and this has been exacerbated by welfare reform and austerity. Evidence from a grouping of General Practitioner doctors in Scotland showed that austerity has had a negative impact on their patients' wellbeing and in particular their mental health. The report highlighted that deteriorating mental health has become a central concern for GPs, for patients who previously had good mental health and for those with existing mental health problems.[18]

Research by the Organisation of Economic and Cooperative Development (OECD) highlighted that financial pressures and fiscal consolidation have created a social crisis which impacts on peoples living conditions and which could have long term impacts on fertility rates and health.[19] Evidence from the British Medical Association (2016) noted that welfare reform and austerity introduced since the economic crisis have cut household incomes and service provision, which have health implications for vulnerable populations. For example, the inability of households to keep warm increases the risk of winter mortality, and

16 British Medical Association (2016) 'Health in all policies: health, austerity and welfare reform', London: BMA.

17 Craig, N (2014) 'Best Preventative Investments for Scotland – what the evidence and experts say', Edinburgh: NHS Health Scotland.

18 GP experience of the impact of austerity on patients and general practices in very deprived areas; GPs at the Deep End, March 2012 cited in Scottish Association of Mental Health (2014) Worried Sick: Experiences of Poverty and Mental Health [Online} available at https://www.samh.org.uk/documents/deprived_communities_report.pdf.

19 UNICEF Office of Research (2014) 'Children of the Recession: the impact of the economic crisis on child wellbeing in rich countries' Innocenti Report Card 12. Florence: UNICEF Office of Research.

lower incomes increase food insecurity with its related nutritional effects.[20] Overall a great deal more social investment is required in household incomes and service provision to support people to live a healthy life.

## 2.2 Housing

The housing landscape in Scotland has changed significantly not only as a result of the economic crisis but also following significant policy changes introduced during the 1980's and the 1990's. For example the 'Right to Buy' policy, which entitled sitting local authority socially rented tenant to buy their homes at heavily discounted prices, led to the loss of 500,000 socially rented houses.[21] Access to quality housing in Scotland continues to present problems which impact on the capabilities and human rights of vulnerable groups. Evidence from the Housing and Wellbeing Scotland Commission (2015) gave a sense of the scale of the problem. Around 150,000 households are on social housing waiting lists; 940,000 households experience fuel poverty; some 73,000 are living in overcrowded accommodation. Other issues such as the ratio of house prices in relation to average incomes and the cost of private rented sector are also proving problematic. Rents in the Private Rented Sector (PRS) have risen significantly and a form a sizeable proportion of households budgets.[22]

Unpacking the strands of social investment and disinvestment around housing in Scotland shows a mixed picture in terms of enhancing the capabilities and human rights of vulnerable groups. In 2015, the Scottish Government designated housing as a national strategic 'social infrastructure' priority.[23] There has been significant investment in house building through schemes such as the £160 million invested in Help to Buy (Scotland) Initiatives and Open Market Shared Equity Scheme to support affordable home ownership in Scotland. This however has been subject to criticism in that the poorest, most vulnerable groups are unable to access this support. Table 2.1 below illustrates the levels of spending on housing investment in Scotland during 2013-2014.

**Table 2.1 Scottish Government spend on affordable housing investment programme, 2013-2014**

| | Budget 2013-2014 £m | New housing (units) | Rehabilitated housing and purchase of existing housing (units) |
|---|---|---|---|
| Social rented housing | 175 | 3,823 | 545 |
| Other (mid market) rented housing | 29 | 804 | 113 |
| Home Ownership Grants | 60 | 329 | 1,398 |
| Other grants and loans | 36 | - | - |
| Total | 300 | 4,956 | 2,056 |

In Scotland the provision of social housing requires significant investment in both the quantity and quality of stock. Evidence from the Scottish Housing Quality Standard (SHQS) showed a 38% failure rate. Increased demand for, and lower provision of, social rented housing have increased the number of low-income households to be found in the private rented sector. Analysing the Scottish Household Survey (SHS), Commonspace found high levels of demand for the Private Rented Sector. They also found that approximately 40,000 people in PRS (11%) are on social housing waiting lists. Approximately 5,000 (12%) of that number have been on a waiting list for over 10 years. Nearly one-third (31%) of those are on the

20 British Medical Association (2016) 'Health in all policies; health, austerity and welfare reform A briefing from the board of science'.

21 Commission on Housing and Wellbeing (2015) 'A Blueprint for Scotland's Future', http://housingandwellbeing.org/assets/documents/Commission-Final-Report.pdf.

22 Ibid.

23 Scottish Government (nd) http://www.gov.scot/Topics/Built-Environment/Housing/reform/more-homes-scotland.

waiting list because they cannot afford their current PRS housing, while 11% are on because they have been threatened with homelessness.[24]

Welfare reform changes by the UK government have created additional pressures on housing, with these pressures expected to increase with the continued role out of Universal Credit. Evidence from one local authority in Scotland where 'full-service' Universal Credit roll-out has been piloted, showed an increased demand for Discretionary Housing Payment, some increased tenant evictions at housing associations due to rent arrears and challenges supporting the most vulnerable claimants.[25] More importantly the waiting times and the 'payment in arrears' approach for Universal Credit had led to claimants experiencing income drops for six weeks or longer.

Overall there is a complex mix of pressures facing vulnerable groups in regards to housing in Scotland. Although there has been some increased level of investment, much more is needed to tackle the scale of the problem. More focused social investment is required to widen access to good quality affordable housing for vulnerable groups to support their rights and increase their capabilities.

### 2.3 Financial services

In Scotland access to affordable financial services has long been recognised as a key issue affecting vulnerable groups. Restricted or no access to financial services limits the ability of vulnerable groups to participate fully in society and to support their needs and choices in life. In a policy context, interest concerning access to financial services has grown since the financial crisis in 2008. Access to a basic bank account has been one such focus in the UK. Research conducted by Citizen Advice Scotland (2010) found that people in more deprived areas of Scotland were less likely to have a bank account and that 123,808 households in Scotland would benefit from access to basic bank accounts. Across the UK similar issues remain, with a recent Financial Conduct Authority report highlighting that around 1.5 million people across the UK remain unbanked.[26] Legislation has been introduced to encourage banks to focus more on this issue and increase access to banking. For example, major banks in the UK are working with the HM Treasury to provide fee-free basic bank accounts for people without an account or who cannot use their account due to financial difficulties.[27] Other access issues include fewer bank branches located, in deprived areas and digital exclusion as a result of the growth of technology based banking services such as online banking and smart phone applications.

In addition, the provision of different forms of credit has changed in the UK. Research by Carnegie UK Trust[28] found that lending criteria and credit available to low-income households has been tightened through measures introduced by the Financial Conduct Authority (FCA). For example the cap on 'payday lenders' has led to a focus by lenders on those on higher levels of income. This has created challenges for more vulnerable households because it has limited their access to credit as a coping mechanism for living on a low-income. Low-income households also experience access problems with financial services such as insurance and mortgages.

Lack of access to basic services such as bank accounts has been compounded by welfare reform measures. The Welfare Reform (2012) Act brought in a number of changes for households in receipt of benefits or tax credit including the introduction of Universal Credit. There has been a move to 'digital by default' in terms of the administration of, and application for welfare benefits including payment having to be made to a nominated bank account. For many households, access to financial services has become increasingly important to enable them access to social protection.

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24 Wray, B (2017) 'Alienating, Insecure and Unaffordable' Living in Scotland's Private Rented Sector' Commonspace: Edinburgh.

25 East Lothian Council (2016) 'Update on Welfare Reform and Universal Credit December 2016 – February 2017'.

26 Financial Conduct Authority (2016) 'Access to Financial Services in the UK' Occasional Paper 17, https://www.fca.org.uk/publication/occasional-papers/occasional-paper-17.pdf.

27 HM Treasury (2014) https://www.gov.uk/government/news/online-current-account-comparison-moves-a-step-closer.

28 Carnegie UK Trust (2016) Gateway to Affordable Credit: The Final Report of the Affordable Credit Working Group, https://www.carnegieuktrust.org.uk/publications/gateway-affordable-credit/

For vulnerable households a number of barriers need to be addressed to increase access to financial services. At both an operational and strategic level, policy measures need to find a balance between safe-guarding in financial services and the needs of vulnerable consumers.

# 3. Financial exclusion in Scotland, a rights and capabilities perspective

## 3.1 Social Investment and financial services in Scotland

This section focuses on research exploring the experience of financial services by people who are in recovery from addiction in the context of human rights and individual and collective capabilities. The research also draws upon the views of key stakeholders in this area.

For this research, social investment was taken to mean 'the investment of resources into people – more precisely into the sustainable enhancement of the individual and collective capabilities. The criteria thus became the sustainable enhancement of individual and collective capabilities rather than the source or nature of the investment'.[29] In this sense financial services can enhance or undermine individual human rights and capabilities.

Research sessions were held in a community venue to allow for a relaxed and informal environment for discussion. A support worker from the NGO that the co-researchers were drawn from, Turning Point Scotland,[30] was available before and after sessions to assist with supporting the co-researchers.

Delivery of the project involved participatory processes to allow for the co-researchers to have control and direction over the research process. A variety of techniques were used to facilitate the exchange of knowledge. This included ensuring the set-up of the room allowed full participation, using interactive techniques, such the use of visual tools.

To recruit co-researchers for the project, people in recovery from alcohol and/or drug use were drawn from Turning Point Scotland services from across Glasgow and West Central Scotland. The group selected had a range of support needs and confidence levels. Support workers from Turning Point approached individuals on behalf of the RE-InVEST Project to provide a trusted point of contact. A breakdown of the demographic information of the group can be found below. A total of six co-researchers were involved in this project.

The group selected had a range of experiences including mental ill health, previous trauma, and interactions with criminal justice system, unemployment, housing problems, and caring responsibilities. It was anticipated that some personal issues for those involved in the project would arise during the research due the need to discuss and analyse difficult or challenging periods in the co-researchers experience. To support this, the group sessions were timed to take place after a peer support session, which allowed an outlet for support to be provided ahead of the research engagement. It was also acknowledged that the reflective historical analysis of this phase of the project - reflecting on potentially traumatic periods from each individual's past - could be difficult. The co-researchers were encouraged to keep themselves 'safe' and to identify their own limits through the process and share what was suitable for them in their recovery journey. This enabled the research project to be situated alongside the support programme with which co-researchers were engaged.

The group of six co-researchers were made up of three men and three women; all were aged more than 40, with one aged between 60-64. All participants were white and four stated that they had an on-going physical or mental health issue.

29 Nicaise et al (2017) cited in Haffner, M EA., Elsinga, M.G., (2017). 'The Netherlands Impact of Social Investment in Housing on Human rights and capabilities of low – income households'.

30 Turning Point is a social care provider working with people with a range of complex needs. For more information visit http://www.turningpointscotland.com/

**Table 3.1 Session Breakdown**

| **Events of the crisis reflection and context** | **Reflections on the economic crisis and their experience of financial services.** |
|---|---|
| Timeline – your own narrative | Snake timelines were provided for groups to populate with their own financial services journey and the life course. |
| Exploring Rights and Capabilities | The concept of capabilities and human rights were introduced verbally in terms of thinking broadly about society and how it shapes our lives this was then used in reflections of my money journey and in the survey of services that had been accessed. |
| Action Planning | Group had a discussion about next steps from the project including Interest in an exchange between other RE-InVEST groups and continuing the links between them and the subject expert based at the Institute of Social Studies in the Hague.<br>To feed into Poverty Alliance and Turning Point Scotland Policy work |

## 3.2 PACHRA methodology: partnership and crossing of knowledge partners

To deliver the work package for the RE-InVEST project, outreach work was conducted to link with Turning Point. Turning Point delivers a number of projects working with people in recovery from addiction, experiencing homelessness and other difficult life circumstances. Turning Point was involved in the recruitment of participants for this research project. The entire group self-identified as being in recovery from alcohol or drug addiction and in some cases having a dual addiction.

Sessions were held at Turning Point to conduct the research in a space with which groups were familiar. Four in-depth sessions were held as part of this project. Sessions were interactive and used a mixture of methods including, reflective writing, mapping of engagement with services and creative modelling. This allowed the co-researchers to share their views in different ways and reflect on the issues and their impact on their capabilities and human rights. As part of this process, the group also had contact with the subject expert Dr Mahmood Messumbek from the Institute of Social Studies of Erasmus University of Rotterdam. He took part in a 'getting-to know-you' session via skype and later attended one of the discussions sessions with the participants in Glasgow.

**Table 3.2 The six members in the group (pseudonyms)**

| | |
|---|---|
| Louise | Female |
| James | Male |
| Robert | Male |
| Stacey | Female |
| Donald | Male |
| Isabelle | Female |

Over the course of the project six sessions were held, including the 'get to know you' session with the group to establish trust and outline the PACHRA process.

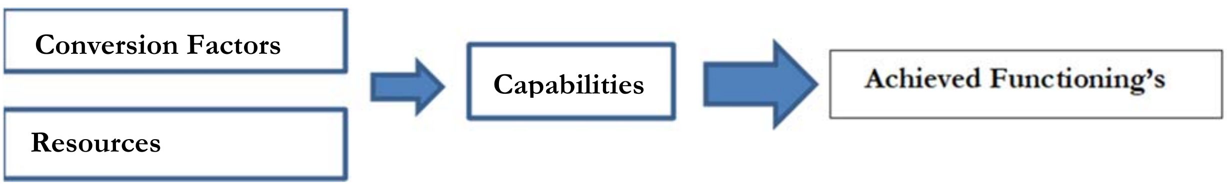
The RE-InVEST project aims to contribute to a more inclusive EU, through an inclusive, and effective social investment strategy at EU level. Moreover, the project itself adopts a participatory approach that gives voice to vulnerable groups and civil society organisations.[31] The RE-InVEST project applies a combined human rights and capabilities approach in exploring the impact the economic crisis and the social policy responses to it have had on vulnerable groups.

The project is grounded in the theoretical framework of the capabilities approach, based upon the work of Amartya Sen (1999) and Nussbaum (2011). It tries to increase social and economic justice for people experiencing social, economic and political inequalities. The framework is based upon operationalising concepts such as wellbeing and development.[32] It explores this in terms of 'what a person can do', the functioning's that can be achieved and their capabilities or choices across functioning's.

> *'Instead of focusing on resources such as income , wealth or legal rights , capabilities seeks to replace this with an emphasis on understanding on what people are actually able to do and be through what Sen terms functioning's and capabilities'.*[33]

'Functioning' refers to states of a person and what they are able to do for example literacy, health mobility etc. This relates to capabilities, which are the opportunities to achieve freedom. Resources are based around the material conditions such as income and conversion factors convert resources. Conversion factors can be defined as personal, social or structural.[34] The capabilities approach embeds agency within society through this analytical lens.

**Figure 3.1 Capabilities approach**




## 3.3 Overview of the European policy context for the financial services sector

Across the European Union, the financial services have been through significant change over the last 20 years in relation to the products offered, the impact of technological change on those products and the wider global economic context shaping the world economy. The uptake and use of financial services, and the changed conditions of access to financial services, has for many people become even more important in light of the financial crisis of 2008. The crisis had an impact across the EU and created an increasingly difficult context for people affected by financial exclusion.

Defining financial exclusion can be a problematic and complex issue. The Micro Finance Centre describes financial inclusion in the following way:

> *'Inclusive financial system functions as an open system, in the sense that it allows anyone to use it (if and when needed) under equal terms and conditions. Therefore, financial inclusion describes the ability of a financial system (including its institutions, products and services, processes and policies) to achieve this on terms and conditions that are affordable, equitable and transparent.'*[35]

The European Union defines financial inclusion as accessing

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31 Reinvest (2015) http://www.re-invest.eu/

32 Brunner, R. and Watson, N. (2015) '*What can the capabilities approach add to policy analysis in high income countries*'. What Works Scotland Working Paper http://whatworksscotland.ac.uk/publications/what-can-the-capabilities-approach-add-to-policy-analysis-in-high-income-countries/

33 Ibid.

34 Brunner R and Watson N (2015 ) '*What can the capabilities approach add to policy analysis in high income countries*'. What Works Scotland working paper p. 4.

35 Microfinance Centre (nd) 'Measuring Financial Inclusion in the EU, The New 'Financial Inclusion Score' Available at http://www.european-microfinance.org/index.php?rub=publications&pg=other-documents&spg=Focus-on-Inclusion

*'Services in the mainstream market that are appropriate to (people's) needs and enable them to lead a normal life in the society in which they belong'* (European Commission, 2008).[36]

For the purposes of this project we will use the EU definition and use it within a PACHRA framework and explore how financial services impact on vulnerable households. Financial services are often categorised as 'mainstream' or 'alternative', as highlighted in Figure 3.2 below.

**Figure 3.2 Types of Financial Service Providers**


*
Source European Commission (2008) Financial Services Provision and Prevention of Financial Exclusion, Brussels: European Commission

Figure 3.2 provides a breakdown of the different types of financial service providers and the forms they take in different EU Member States. Different types of providers can be classed as alternative and mainstream dependent on the country context and each EU state faces different challenges in terms of financial exclusion.

Analysis of the different levels of financial exclusion indicated that there was a relationship between inequality and the strength of a countries economy. There was a correlation between levels of financial exclusion and the levels of affluence (as measured by GDP) and inequality. Where affluence was high and income inequality was low, levels of financial exclusion were also low. Figures on the levels across different countries in the EU can be found in Table 3.3 below.

36 Research note 3/2010 Financial exclusion in the EU New evidence from the EU-SILC special module.

**Table 3.3  Levels of financial exclusion in individual EU 25 Countries**

| | Percentage financially excluded | Unweighted base | Weighted base | Gini coefficients | GDP per capita |
|---|---|---|---|---|---|
| EU15 | 7 | 15453 | 15526 | -- | -- |
| EU10 | 34 | 8516 | 8493 | -- | -- |
| **EU15** | | | | | |
| Belgium | 1 | 988 | 422 | 33 | 119 |
| Denmark | 1 | 970 | 214 | 24.7 | 122 |
| Germany | 3 | 2000 | 3517 | 28.3 | 109 |
| Greece | 28 | 964 | 434 | 34.3 | 82 |
| Italy | 16 | 955 | 2408 | 36 | 105 |
| Spain | 8 | 959 | 1659 | 34.7 | 98 |
| France | 2 | 957 | 2327 | 32.7 | 111 |
| Ireland | 12 | 949 | 145 | 34.3 | 139 |
| UK | 6 | 1294 | 2424 | 36 | 119 |
| Luxembourg | < 1 | 574 | 17 | -- | 223 |
| Netherlands | 1 | 978 | 645 | 30.9 | 120 |
| Portugal | 17 | 947 | 413 | 38.5 | 73 |
| Finland | 6 | 960 | 206 | 26.9 | 115 |
| Sweden | 2 | 969 | 356 | 25 | 116 |
| Austria | 3 | 989 | 339 | 29.1 | 122 |
| **EU10** | | | | | |
| Cyprus | 18 | *456* | *79* | -- | 82 |
| Czech Rep | 17 | *953* | *1165* | 25.4 | 72 |
| Estonia | 16 | *910* | *153* | 35.8 | 50 |
| Hungary | 34 | *1001* | *1200* | 26.9 | 61 |
| Latvia | 48 | *946* | *265* | 37.7 | 43 |
| Lithuania | 41 | *934* | *382* | 36 | 48 |
| Malta | 21 | *478* | *44* | -- | 72 |
| Poland | 40 | *949* | *4368* | 34.5 | 47 |
| Slovakia | 26 | *950* | *614* | 25.8 | 52 |
| Slovenia | 6 | *939* | *223* | 28.4 | 78 |

* Base: all adults aged 18 or over.
Source Eurobarometer 60.2 and 2003.5

Recent figures have shown a significant increase in the number of people across Europe who face financial exclusion and that figure has risen since the financial crisis. In 2003 seven per cent of the population (30 million people) had no or limited access to financial services rising to 10% following the financial crisis.

At an EU level, financial exclusion data collected through the EU SILC survey 2008 focused on access to a bank account, access to an overdraft and access to credit card as key indicators of financial exclusion. In the table below the SILC data shows the UK having rates of 5.7% for income poverty and 11.4% for material deprivation, with a clear relationship between material deprivation and having a bank account.[37]

37 Ibid.

**Table 3.4 People living in households with no bank account (% of each category)**

| | Total | Income over 60% median | Income below 60% median | Deprived of at least 3 of 9 items |
|---|---|---|---|---|
| Belgium | 0.6 | 0.4 | 1.4 | 1.7 |
| Bulgaria | 82.9 | 79.5 | 95.6 | 92.2 |
| Czech Republic | 14.2 | 12.0 | 36.1 | 31.6 |
| Denmark | 0.0 | 0.0 | 0.0 | 0.0 |
| Germany | 0.4 | 0.2 | 1.6 | 1.3 |
| Estonia | 3.2 | 1.0 | 12.1 | 10.5 |
| Ireland | 16.8 | 14.1 | 32.0 | 44.9 |
| Greece | 70.1 | 67.7 | 79.4 | 86.6 |
| Spain | 1.2 | 0.5 | 3.8 | 3.8 |
| France | 0.3 | 0.2 | 0.9 | : |
| Italy | 19.1 | 13.3 | 44.8 | 47.0 |
| Cyprus | 19.8 | 13.0 | 54.5 | 31.4 |
| Latvia | 14.2 | 6.8 | 35.8 | 28.3 |
| Lithuania | 17.7 | 14.5 | 30.3 | 31.6 |
| Luxembourg | 0.2 | 0.2 | 0.3 | 0.9 |
| Hungary | 19.9 | 18.1 | 32.8 | 28.4 |
| Malta | 3.9 | 2.9 | 10.0 | : |
| Netherlands | 0.2 | 0.2 | 0.3 | 0.5 |
| Austria | 1.8 | 1.3 | 5.8 | 4.2 |
| Poland | 16.1 | 13.0 | 31.0 | 29.9 |
| Portugal | 4.6 | 2.9 | 12.3 | 14.4 |
| Romania | 75.5 | 70.4 | 92.1 | 86.6 |
| Slovenia | 4.5 | 2.8 | 16.7 | 10.8 |
| Slovakia | 14.0 | 11.9 | 31.1 | 28.4 |
| Finland | 0.0 | 0.0 | 0.0 | 0.0 |
| Sweden | 0.1 | 0.1 | 0.0 | 1.1 |
| UK | 2.1 | 1.3 | 5.7 | 11.4 |
| EU | 11.6 | 9.5 | 22.5 | 36.2 |

Note: The data in the final column is the indicator of material deprivation used in the EU (and approved by the indicators sub-group of the Social Protection Committee). It essentially consists of not being able to afford any three of nine items included in the EU-SILC. Note that there are no data for France and Malta because these two countries do those without a bank account.

**Source** EU-SILC, 2008

The complexity of the landscape of financial exclusion and access to and use of financial services will continue to be challenging. It is one that needs social investment to support people's needs and enable effective choices. Poverty and financial inclusion are clearly linked phenomena. Of course, experiences of financial exclusion can also be affected by gender, age, ethnicity as well as other characteristics such as position in the life course and housing circumstances. Exploring financial inclusion fully requires consideration of all aspects of household and personal characteristics to understand the nuances and consequences of financial exclusion.

## 3.4 Overview of the national sectoral policy development since the crisis

There have been a number of changes in the financial services sector since the financial crisis began in 2008. The decades prior to the 2008 crisis had seen significant deregulation of the financial markets which had contributed to the rapid expansion of financial services especially in the UK.

At the outset of the financial crisis the UK government took several crucial steps to mitigate its impact on the UK economy. There was the nationalisation of the Royal Bank of Scotland with the UK government taking an 84% stake in the bank.[38] Other changes involved the merging of some financial institutions.[39] The financial crisis led resulted in restricted access to credit and lending for consumers and businesses, resulting in a downturn in economic activity in key sectors such as construction and retail. The response to the economic crisis by the Conservative and Liberal Democrat Coalition Government in 2010 was to focus on

38 University of Liverpool (nd) '*The financial crisis of 2007/2008 and its impact on the UK and other economies*'.

39 Ibid.

reducing the public deficit and introducing significant cuts to public services and welfare support. Alongside the cuts to social security benefits as a result of austerity, financial institutions increasingly targeted their products at consumers from which they could most profit.

Individual engagement with and use of financial products are influenced by a range of factors. On the suppliers side these include the regulatory framework that is in place, their understanding and value of different markets or the design of their products. The design of products can include charges or other barriers to entry that may exclude some low-income customers.

On the demand side, individuals can be deterred from using some products as a result of psychological, cultural and material factors. These can include the perception that certain products are not for them, or that they are unaware of the existence of certain products or because the costs or charges for certain products (credit card or overdraft fees for example) are too high.[40]

The Financial Conduct Authority (FCA), the regulatory body for the UK requires that financial services are fair in their treatment of customers and has a number of outcomes to which services are expected to adhere. However the guidance applies as to whether they treat existing customers fairly and does not require them to meet the needs of wider society including those who may not be current customers. [41]

This has increased the marginalisation of low-income households from, and the financial exclusion of, vulnerable households regarding mainstream financial services in the UK. Understanding the scale of financial exclusion is crucial for effective policymaking which could target access to, and on-going use of, financial services and products.

Despite recent efforts, there are currently almost 2 million adults in the UK who do not have a bank account, of which 50% previously had a bank account.[42] Alongside access to bank accounts there are other dimensions of financial exclusion amongst people living on low-incomes such as low levels of savings, over-reliance on high interest credit and low levels of home contents insurance.[43]

In 2015 the UK government established the Financial Inclusion Commission with the aim of working with key stakeholders, towards making the UK a more financially inclusive society.[44] The impact of this commission is as of yet unclear but one of the key recommendations of the commission was the designation of a senior minister to be given the role of Minister of Financial Health. This recommendation has yet to be implemented.

Recent UK policy for financial products and services has focused on basic bank accounts. This is a result of a changing system of social protection and the introduction of, and a new administrative system for Universal Credit. As part of the shift to Universal Credit, there has been a focus on 'digital by default' whereby people claiming Universal Credit are expected to make applications online. Payment of this benefit will be made directly into bank accounts. By taking this approach there is the potential for financial exclusion to inhibit people's ability to access basic social protection. As a result there has been a concerted effort to in Scotland and across the UK to improve individual's digital skills and financial capability in areas such as budgeting. The introduction of Universal Credit will by no means remove issues around access to basic bank accounts, although it has brought renewed attention to issues of financial exclusion.

In Scotland, Universal Credit will be administered slightly differently, with payments being made to individuals as opposed to the household as a whole.[45] The policy intention of the single household payment to reduce administration costs could be seen as example of increasing social disinvestment and one that will reduce household's capabilities.

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40 European Commission (2008) 'Financial services provision and prevention of financial exclusion'.

41 Financial Conduct Authority (2014) *Treating customers fairly* https://www.fca.org.uk/publication/archive/fsa-tcf-towards.pdf.

42 Financial Inclusion Commission (2015) '*Improving the Financial Health of the Nation*' http://www.financialinclusioncommission.org.uk/pdfs/fic_report_2015.pdf.

43 Joseph Rowntree Foundation (2016) '*UK Poverty Causes, Costs and Solutions*', York: JRF.

44 Financial Inclusion Commission (2015) '*Improving the Financial Health of the Nation*' http://www.financialinclusioncommission.org.uk/pdfs/fic_report_2015.pdf.

45 Scottish Women's Budget Group (2017) 'Scottish Government commits to splitting payments of Universal Credit', Edinburgh: SWBG.

Universal Credit will represent a significant shift for those in receipt of benefits both in and out of work. Its 'digital by default' ethos and its single payment structure will need to be examined closely to understand its impact on financial exclusion. At a Scottish level there will be wider issues to consider such as the introduction of devolved social security benefits and how these influence households' financial inclusion. Other prominent legislation in Scotland affecting financial inclusion is the Bankruptcy and Debt Advice (Scotland) Act 2014 with the aim of bringing a 'financial health service to Scotland.'[46]

Tackling financial exclusion will require a range of policy initiatives to create inclusive financial products for people. Underpinning this however needs to be the recognition that the fundamental driver of financial exclusion is precarious incomes. Overall it is important to address levels of people's incomes alongside access to and use of financial services.

### 3.5 Impact on human rights: addressing access, affordability, and quality

Throughout this study the knowledge and insight on issues of social investment and on the experiences of vulnerable group's engaging with financial services has been discussed. This knowledge was drawn from the focus group sessions and the process of the stakeholder interviews to provide multiple perspectives on the research question.

The understanding of social investment has been 'the investment of resources into people – more precisely into the sustainable enhancement of the individual and collective capabilities. The criteria thus become the sustainable enhancement of individual and collective capabilities rather than the source or nature of the investment'. In this sense financial services are a tool that can enhance or undermine people's human rights and capabilities.[47] The experience of poverty is often compounded and increased by limited access to financial services through limiting the choices and options that people were able make in their day-to-day lives. Financial services and products are inherently market driven and focused generally on profit, and on consumers who will maximise profit with lower risk. Where risk is attached to the product, this will have other impacts for lower income consumers such as limitations to whom the product is targeted, who is able to access it, or higher costs for the product in question. Access needs have also to be understood in terms of how the products function in meeting people's needs as well as the barriers that may restrict or prohibit their use. Barriers can often be multi-dimensional and related to characteristics of an individual such as position in the life course, financial literacy and previous use of financial products.

Access to financial services cannot be viewed directly as a human right: there is no article in the UN Declaration of Human Rights that specifically reflects people's access to financial services. However, access to financial services could be regarded as a subsidiary right, one that allows access to other rights, such as the right to an adequate standard of living. It has been argued, by Muhammad Yunus and others, that access to financial services, in particular to credit, is a human right due to the fact that it can allow the realisation of other rights in a modern market economy (to food, health, housing, etc.).[48]

Moreover, the right to be treated equally before the law (Article 7 of the UDHR) or Article 14 of the Uk Human Rights Act (the application of rights in the Act with discrimination) could perhaps also be seen in the light of the experience of research participants experience in relation to financial services. Financial products may be based around risk and profit and have products available to people on insecure income, services often come at higher costs. This concept of discrimination was experienced in several different ways and was often ongoing in people's lives. For example, individuals past financial history impacted on their present situation and their experience of financial products.

46 Financial Inclusion Commission '*Improving the Financial Health of the Nation*' p. 11.

47 Nicaise et al (2017) cited in Haffner, M EA., Elsinga, M.G., (2017). 'The Netherlands Impact of Social Investment in Housing on Human rights and capabilities of low – income households'.

48 Kumar, B.D. (2014) 'Access to Finance and Human Rights', MPRA, https://mpra.ub.uni-muenchen.de/80336/1/MPRA_paper_80336.pdf.

Examples were given of people in recovery having to pay for bank accounts, which had the effect of taking away income people had received from the social security. Other examples were provided of having no bank account putting people at risk of precarious employment.

*'My circumstances with bankruptcy have led me to have to pay £17.50 a month for a bank account.'*

*'Couldn't get bank account so when I started work, I had to get paid in cash ... and didn't have security if I didn't get paid.'*

Co-researchers reported feelings of fear, mistrust and embarrassment when dealing with financial services. In some cases this has led to them not engaging with financial services or disengaging and seeking alternative ways of managing their money. Assumed financial literacy was discussed with co-researchers and examples were highlighted of households describing feelings of only being able to engage with products if they had baseline knowledge of those services, of the need to use the 'right language' and having the correct paperwork. Complex life circumstances, such as abusive relationships and the nature of addiction, meant people had experienced stigma and discrimination in other aspects of their lives and this had increased their marginalisation from financial services and products as well as their capacity to navigate financial services.

Whilst addiction had led to households becoming more financially excluded, it was still proving to be problematic even when in recovery. For example, it was still difficult to get life insurance for their household as they were still viewed as being of a higher risk. This especially concerned those who had dependents in terms of providing financial security.

*'I can't get insurance because I have had addiction problems.'*

The practices outlined above have all contributed to a reduction in the human rights that households were able to access, specifically contributing to undermining Article 7: 'All are equal before the law and are entitled without any discrimination to equal protection of the law'.

Social security and financial services have an interlinked relationship. The changing labour market has resulted in increased precariousness for many households; concurrently the social security system has been reshaped and has reduced support for many households. Greater pressures on households have resulted in increased demand for crisis support and on financial products offering solutions for periods of acute income crisis. This has become increasingly important. Reductions in the levels of social protection have resulted in people having limited means and choices to enable them to obtain or draw upon additional sources of income. Being in recovery presented particular challenges such as the reluctance of family and friends to lend or offer money because of previous breaches of trust when people were looking to finance their addiction.

*'My sister looks after my finances. I am better now I can ask for £50 as I am now getting trust. It's the wee things.'*

Affordability of products was another key concern. The financial products that were used often had higher costs, further reducing the household income and making the possibility of saving remote. Co-researchers reported that high interest loans would often trap people in poverty, rather than helping them move out of poverty or even just relieving financial pressures, locking them into a debt for long period of time. Being on a low-income meant that households were more vulnerable to shocks the need to purchase expensive white goods, having to repair necessary household items or the costs associated with relationship breakdown. In these scenarios access to reasonable sources of credit was not always possible, meaning that individuals had to rely on high costs credit.

Reductions in the level of income from the social security system, for example as a result of being refused a disability benefit after reassessment, or due to a financial penalty (sanction) on an individuals' benefit, resulted in sudden income drops reducing people's basic standards of living. This led to the erosion of Article 22 of the UN Declaration of Human Rights which states that: 'Everyone, as a member of society, has the right to social security and is entitled to realization, through national effort and international cooperation and in accordance with the organization and resources of each State, of the economic, social and cultural rights indispensable for his dignity and the free development of his personality'.

Work and leisure were also shaped by financial circumstances. Being in employment requires people to have access to financial products such as bank accounts. However, this was not the case where people were gaining employment that was paid ‘cash-in-hand’, in jobs with fewer employment rights such as paid leave, sick pay and so on. Having no bank account could limit the possibility of people to be able to secure and sustain secure employment instead leaving them vulnerable to more precarious and exploitative forms of employment. This placed people at risk of the Article 24 being breached. Article 24 states that: *‘Everyone has the right to rest and leisure, including reasonable limitation of working hours and periodic holidays with pay.’*

## 3.6 Impact on Individual Capabilities

Our definition of social investment is about having access to the collective resources of the society in order to achieve sustainable enhancement of individual and collective capabilities.[49] At an individual level access and use of financial services are important for social inclusion and realisation of capabilities over a lifetime.[50] At a collective level, financial services are important for promoting and supporting the financial foundation of public and social services.[51]

Being financially excluded has numerous implications for an individual’s life, including an impact on housing, health and wellbeing, and employment and leisure. Financial services were generally viewed as being supportive to people in times of stable employment and higher levels of income and not when people were living in poverty or had more precarious periods of fluctuating income. The experience of addiction often compounded this, as people’s lives were chaotic, for example periods of imprisonment, insecure housing, and hospitalisation and rehabilitation, etc. In addition, financial products were viewed more simplistically as a mechanism to allow the continuation/maintenance of their addiction.

*‘My addiction drove me into debt and crime.’*

In contradiction to this, financial products were also viewed as part of the recovery from addiction. Better use of financial products and services or gaining use of products that a household had not previously utilised was seen as important steps in moving on from addiction and to feeling more included in society. This was, however, affected by the legacies of addiction. For example, debts, bankruptcy and periods of non-use rendered accessing products difficult for households. Non-use of financial products meant there were periods when it was difficult to trace people on financial systems and other issues such as lack of useable forms of personal identification were also barriers.

People were asked to reflect on a number of different financial services and their experience of them. As noted above, since the economic crisis, there have been a number of changes to banking services and other financial services in the UK. This has resulted in increased regulation of banks and lending services. The tightened criteria compounded existing financial exclusion of vulnerable households.

In many ways the co-researcher’s experiences of financial services interacted with the dynamics of living on a low-income more generally. More positive experiences with financial services were associated with periods when income was higher and steady. However the changing context of welfare reform and reduced social protection had created financial instability and this was changing the nature of services with which they engaged.

Participatory mapping was conducted on people’s financial experiences and journeys to understand the way that financial services and products were able to help people realise their rights and capabilities. From this we can identify patterns of behaviour from the crisis onwards.

49 Messuemb.
50 Ibid.
51 Ibid.

**Table 3.5 Participatory mapping of participants use of financial services**

| | Used/Experienced in the last year | | | | | Used/Experienced in the last 5 years | | | | | Used/Experienced in the last 10 years. | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Person | | | | | Person | | | | | Person | | | | |
| **Financial product Service** | **1** | **2** | **3** | **4** | **5** | **1** | **2** | **3** | **4** | **5** | **1** | **2** | **3** | **4** | **5** |
| Own bank account | √ | √ | √ | √ | √ | | | √ | | | | | √ | √ | |
| Overdraft facility on bank | | | | | | | | | √ | | | | | √ | |
| Direct Debits | √ | | √ | | | | √ | √ | | | | | | | |
| Credit card | | | | √ | | | | | √ | | | | | √ | |
| Incurred Bank charges | | | | | | | | √ | √ | | | | √ | √ | |
| Online Banking | | | √ | √ | | | | √ | √ | | | | | | |
| Credit Union account | √ | | | | | | | √ | | | | | | | |
| Post Office account | | | | | √ | √ | √ | | | √ | | | | | √ |
| Insurance for home | | | √ | | | | | √ | | | | | | √ | |
| Insurance – other | | | | | | | | | | | | | | √ | |
| Mortgage | | | | | | | | | | | | | | √ | |
| Doorstep loan | | | | | | | | √ | | √ | | | √ | | √ |
| Pay day loan | | | | | | | | √ | | | | | | | |
| Debt sold on [who did that? Doorstep lenders?] | | | √ | | | | | √ | √ | | | | √ | √ | |
| Use of pawnshop or other similar | | | | | | | | √ | √ | | | | √ | √ | √ |
| Borrowing from friends or family | | | √ | √ | | | | √ | √ | | | | √ | √ | |

Overall people's journeys indicated a complex picture, in terms of all types of financial services and the capabilities people were able to be and do. There was, as could be expected, a shift away from use of high costs lenders coinciding with increased regulation of this sector.

In addition there was an increase in the number of people taking up a bank account. This was mainly driven by changes to the welfare system. Universal Credit is in a phased implementation across the UK and will amalgamate a number of different benefits into a single payment which has to be paid into a bank account. With this system there is a lead-in time and during this period people can get a short-term advances (effectively a loan) of money if necessary. This advance, however, cannot be paid without access to a bank account, therefore creating a need for people to have a basic bank account. This differs from previous the benefit system where individuals could have, for example, a post office account.

Financial exclusion limited the choices and opportunities people were able to access. Money management was discussed many times across this research project. Managing on a low-income required careful budgeting and use of focused time to make sure income was maximised and stretched. It was highlighted that households were unable to fully participate in society when living on a low-income and their experiences of financial services could often intensify this. For example, the services they were able to buy, and the housing they were able to access.

This impacted on wellbeing and also on wider family relationships. Addressing this was seen as a long process. The speed of wider technological changes in society and the changing political environment meant that households felt out of sync with other citizens in society in terms of participation in social, cultural and economic life.

Technological changes have meant that many products are moving online and further constraining people's access to and use of financial products. This has resulted in people having difficulty accessing and using a product in its offline format. Digital exclusion continues to be a significant problem. Research by the Carnegie UK Trust found that non-working single adult households are the least likely to have internet access.[52] The use of support services as well as peer support from others in recovery was seen as invaluable for households to maintain recovery and become more financially included.

**Figure 3.3 Participatory model designed by co-researcher**

## 3.7 Impact on collective capabilities

At a collective level financial services are important for promoting and supporting the foundation of public and social services. In terms of collective capabilities, the financial crisis and its aftermath has brought about a changing landscape in Scotland. Its impacts have led to changes in housing, welfare, employment and many other aspects of life. These changes have altered the landscape of support available to low-income citizens in Scotland.

Austerity has reduced public spending which has led to a more precarious support landscape of public services in particular in terms of pressure on housing and cuts in social security at a UK level. At the same time the demand for public services has increased and for more vulnerable groups, such as those in recovery from addiction, the protection of public services and social investment is critical to allow people to be able to realise their capabilities.

The financial crisis overall has led to a focus on reducing social investment as the UK Government has sought to reduce the financial deficit. In Scotland there have been particular challenges. Firstly, housing has come under increasing pressure due to social housing shortages and a resulting rise in people turning to the private rented sector. In Scotland, there are currently 150,000 households on waiting lists for social rented housing. One policy response has been to provide financial support to allow individual to buy homes, through schemes such as Help to Buy and the Lift Scheme.

Secure housing allowed people to engage with other aspects of life. Home represented a safe space to promote wellbeing and social connections and was viewed as essential for maintaining recovery. Experiences of financial services and products also shaped this. For example, people had limited knowledge of housing schemes to help low-income households, and due to precarious and low paid work were unable to get a mortgage. This meant people were dependent on social housing and or renting in the private sector. In some cases people also had to live with relatives due to waiting lists and shortages in social housing. Housing was also affected in other ways such as not being able to get household insurance due to past convictions, having difficulties in maintaining accommodation due to being unfamiliar with managing financial products and the reduced financial options as a result of living on a low-income. This was compounded by reductions in frontline financial support services at a time of higher demand and longer waiting.[53] Wider cuts to social protection have placed people at increased risk of hardship and use of foodbanks.

52 White, D. (2016) 'Digital Participation and Social Justice in Scotland' Dunfermilne: Carnegie UK Trust
53 McHardy F ( 2015) 'Welfare Trackers – What's going on in Glasgow '

*'I could not pay my arrears to the housing [department of council?] if I didn't have a bank card. I would have liked someone to have sat me down and worked out a payment plan rather than feel like a second class citizen and to take it off my benefits.'*

### Choice and autonomy

Whilst financial literacy and capability affected the choices that households could make, there were other fundamental issues regarding the decisions and choices people were able to make in using financial services. This resulted in a lack of flexibility in their lives and in the opportunities they were able to access. Restrictions in choice often resulted in people being further marginalised. The issue of being able to cope with unanticipated expenses was often challenging. Accessing affordable credit was not an option resulting in high cost lending and people incurring a poverty premium, whereby they paid more as a result of living on a low-income.

These prevented people from having the freedom to make cost effective choices and instead trapped them in a situation whereby they were left more financially vulnerable. Existing or previous debts on bank accounts could also be problematic as this example shows.

*'I had a private let, social paid money into bank, had bank arrears, bank took charges, letting office came for rent, money was short so got late payment and another charge.'*

### Family and social networks

The economic crisis has also had an impact on family and social connections in addition to how low-income households interact with financial services. For families in recovery from addiction, this presented particular problems. Periods of addiction had strained and damaged relationships and this, in some cases, limited people's ability to draw on family and social networks for financial support when required. This in turn led to further reliance on high cost lenders. Other forms of support such as emergency or crisis support from the social protection system were utilised.

Access to financial services could also be gained through friends or family. For example, people could get access to financial services if friends or family were willing to act as a guarantor or through providing support with issues such as ID.

Support services also played a crucial role in terms of navigating services and helping people get a better understanding of different financial products. Support services were seen as a trusted point of contact and a resource to enable people to engage with financial products. However, obtaining support could be difficult especially where key workers had heavy caseloads. This was a particular the case for welfare rights advice in light of the numerous changes in the system of social protection. White (2016) highlights similar findings on the remits and caseloads of those working in social support services.[54]

### Stigma and discrimination

People in recovery from addiction often report feeling stigmatised because of their addiction. Low-income and financial exclusion provided further layers of stigma. They faced challenges accessing products and services if it meant having to disclose complex life histories including the reasons why people may have had no prior use of a service. This did not always result in a positive outcome for people, for example being unable to get life insurance. People often had to draw upon wider support networks to enable product access or manage when they could not get access to credit or services. This led to people having feelings of embarrassment and guilt from when support networks had previously been under pressure whilst supporting people during periods of addiction.

Overall, long-term financial inclusion resulted in enhanced capabilities for people to be able to have more choices and freedom in how they lived their lives and the choices they were able to make and the opportunities they were able to access.

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54 White, G (2016) 'The Impact of Welfare Reform on the Social Services work, IRISS, https://www.iriss.org.uk/resources/insights/impact-welfare-reform-social-services-workforce

## 3.8 Impacts on social disinvestment and or liberalisation of social services on rights and individual and collective capabilities

Systemic changes in regulation have altered both the way services operate and the criteria they adopt when delivering financial products. Whilst some progress has been made, more needs to be done. As a result of the crisis there has been greater scrutiny of financial products and in particular subprime lending and the economic consequences of this.

> *'Rather than recognise the financial crisis was caused by the bankers we want to blame poor people instead.'* Stakeholder interview.

Fundamentally, UK financial products and services are still market driven and profit focused and in this context low-income consumers will not be the main priority of the financial industry and will therefore require state intervention. It is still the case that the UK has a liberal regulatory framework for banks due to their importance for the UK economy. In a policy context of human rights and capabilities, this means that when people are financially excluded and have other vulnerabilities such as ill health or disability, this exclusion is 'reinforced or compounded' by the free markets.[55]

Some progress has been made in the financial sector, for example, the provision of basic bank accounts and new legislation introduced in the UK driven by the European Parliament Payments Account Directive.[56] This legislation has focused on those excluded having the right to a basic bank account and getting banks to offer basic bank accounts to eligible customers. Despite this however, legislation still does not force promotion of this service therefore limiting their uptake and access by vulnerable groups.[57]

Savings also remains problematic for low-income groups. In 2010 there was the abolition of the Savings Gateway scheme which was an incentive based scheme by the UK Government to encourage low-income households in receipt of benefits and tax credits to save.[58] This was accompanied by the ending of Child Trust Funds another incentive based scheme further reducing the opportunities for families to save for their children's future. Both of these were abolished by the UK Coalition Government's on the basis that they were no longer unaffordable in the context of broader austerity policies.[59] These moves are a direct example of a removal of social investment for low-income groups.

In relation to insurance, low-income households are still not adequately supported by any mainstream schemes across the UK.[60] Low-income households require an insurance scheme that is flexible to their needs at an affordable price. In the stakeholder discussions it was highlighted that many low-income households did not have insurance and therefore needed schemes which provided low excess charges for claims and which could be paid for in flexible ways to allow people to afford and manage access.

Regulatory changes have produced both intended and unintended consequences. For example, regulation of the mainstream credit markets has reduced the options of affordable credit available to people on a low-income. Political and public pressure in light of the crisis has resulted in greater scrutiny of financial products and services with a particular focus on high interest lenders such as payday loans. The tightening of lending criteria has created gaps in provision and whilst this is well intentioned it has created situations where low-income household are extremely limited in the funds upon which they can draw in crisis situations and are more dependent on emergency support from the welfare system or on other coping mechanisms.

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55 House of Lords (2017) 'Tackling financial exclusion : A country that works for everyone', Select Committee on Financial Exclusion

56 European Commission (nd) Bank Account http://ec.europa.eu/consumers/financial_services/bank_accounts/index_en.htm

57 Salway, J. (2016) '*Don't let basic bank accounts go begging through ignorance',* The Scotsman https://www.scotsman.com/business/companies/financial/don-t-let-basic-bank-accounts-go-begging-through-ignorance-1-4239275

58 BBC (2010) '*Savings Gateway Scheme'* was Scrapped http://www.bbc.co.uk/news/10376543

59 Hansard (2010). HC Vol 512 Budget speech. https://publications.parliament.uk/pa/cm201011/cmhansrd/cm100622/debtext/100622-0005.htm

60 Dayson, K., Vik., P., Ward., A (2009) 'Delivering Insurance to Low-income Households', London: Friends Provident Foundation.

The culmination of the inter-relationships of different policy measures, processes of regulation and social disinvestment has created a difficult landscape for households to navigate and realise their human rights and capabilities. Further intervention will be required to ensure that those with vulnerabilities, such as those recovering from addiction, will not become further marginalised. Across both Scotland and the rest of the UK further pressures will come into play, such as the impact of Brexit and the further devolution and roll out of some social security powers to Scotland .

Supply of and demand for financial products will need to be carefully reviewed to ensure that low-income consumers are prioritised and able to attain access to products, which will enable people to have autonomy and choice and to be able to realise their capabilities and human rights. As technology changes the delivery of financial products and services, it will require fast and innovative policy interventions and thinking to place low-income consumers on a level playing field.

# 4. Conclusions and policy recommendations

This report has been prepared for the European Commission Horizons 2020 funded project RE-InVEST - rebuilding an inclusive value based Europe of solidarity and trust through social investments. The economic crisis of 2008 has had an impact across Europe in a variety ways through unemployment and changing labour markets, increased poverty, and reductions in service provision. The RE-InVEST consortium is exploring the social investment strategy of the European Commission in response to the financial crisis of 2008 and its impact on vulnerable groups.

The RE-InVEST consortium is focusing on the impact on human rights and capabilities across 12 countries (13 regions) covered by the project. An important aspect of this process is giving space to vulnerable groups through participatory methods and a crossing of knowledge through lived experiences. This has been conducted through the Participatory Action Research using Human Rights and Capability approaches. This report has looked to explore the impact of social investment on human rights and capabilities by two approaches.

- **Chapter 2:** outlined the review of literature of four service sectors: Early Childhood Education and Care (EHEC), Healthcare, Financial Services and Housing.
- **Chapter 3:** Outlined the report from working with RE-InVEST co-researchers – people in recovery from addictions and views of stakeholder who have worked in the area of financial inclusion.

Financial services in the UK will continue to play a key role in the way society is organised and operated. The relationship between financial services and social investment will continue to be important. Social disinvestment and regulation have had key impacts on the experiences of low-income groups and their engagement and use of financial services and products. This continues to shape the capabilities and human rights of low-income groups. At a micro or local level, this study illustrated a number of changes such as disinvestment in key areas of housing and social protection resulting in reduced capabilities and human rights for households. In regards to financial exclusion, the economic crisis has further challenged people's opportunities to engage with financial products.

Low-income consumers will continue to face difficulties in realising their capabilities and human rights. The provisions on offer have been subject to change due to shifting policy contexts and changes in markets and technology. More broadly the system of social protection on offer is becoming increasingly restrictive with greater conditionality for all those involved.

#### Recommendations

There are a number of recommendations flowing from this research that are required to enhance people's capabilities and human rights.

- At the heart of the problem of exclusion from financial services is a problem of low and precarious incomes. Without greater efforts to secure the right to an adequate standard of living as required in accordance with the International Covenant on Economic, Social and Cultural Rights, efforts to improve financial capabilities will be undermined. To begin this process of progressively realising the right to an adequate standard of living, the UK Government should review the setting of social security payments and seek to apply benefits based on minimum income standards.

- In Scotland, where new powers over elements of social security benefits are being devolved to the Scottish Parliament, similar efforts should be made to ensure that new forms of financial assistance are set in line with recognised adequacy standards.
- Increased social investment is needed to increase people's access to services and support. Issues such as digital exclusion interacted with financial capability to further marginalise people. Support services were crucial in promoting familiarity and confidence with services.
- Further regulation of financial products needs to be introduced to address the impact on different protected characteristics as well as their interactions with socio-economic status.
- A designated Minster of Financial Health should be appointed. The powers for the Financial Conduct Authority should be enhanced to promote financial inclusion as one of its core objectives and to promote dialogue between regulatory agencies and those with lived experience.
- Further work is needed to understand the implications of the roll out and administration of Universal Credit and its implications for financial exclusion.
- Further research and analysis is required to ensure person centred and accessible delivery of financial products, which meet the needs and match the complex financial circumstances of people living on a low-income.

**RE-InVEST - Rebuilding an Inclusive, Value-based Europe of Solidarity and Trust through Social Investments**

In 2013, as a response to rising inequalities, poverty and distrust in the EU, the Commission launched a major endeavour to rebalance economic and social policies with the Social Investment Package (SIP). RE-InVEST aims to strengthen the philosophical, institutional and empirical underpinnings of the SIP, based on social investment in human rights and capabilities. Our consortium is embedded in the 'Alliances to Fight Poverty'. We will actively involve European citizens severely affected by the crisis in the co-construction of a more powerful and effective social investment agenda with policy recommendations.

**http://www.re-invest.eu/**

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