

**INVEST TO SAVE BUDGET
PRO FORMA FOR ROUND X FORMAL BIDS**

ASSESSMENT SHEET

BID NO **XX**

| | | | | | | | | | | | | | | | | | |
|--|--|-------|---------|-------|-------|---------|---------|--|---------|---------|--|--|--|-------|---------|--|---------|
| <i>Project title</i> | Community Finance and Learning Initiative (CFLI) (formerly the Social Banking Project) | | | | | | | | | | | | | | | | |
| <i>Parties to project (lead partner in bold)</i> | Department for Education and Skills (Policy Innovation Unit/Regional Policy Division/Adult Basic Skills Strategy Unit) Treasury (Saving Incentives Team) Community-based organisations Private sector financial service providers | | | | | | | | | | | | | | | | |
| <i>Objectives of project</i> | <p>The objective of the Community Finance and Learning Initiative (CFLI) is to combat financial exclusion in disadvantaged neighbourhoods by a) promoting access to free adult literacy and numeracy courses b) to develop innovative approaches to the delivery of financial literacy courses c) promoting access to mainstream financial services including the basic bank account, the Saving Gateway and other savings products, and insurance by providing advice and a signposting service for other providers (e.g. high street banks, the Post Office, credit unions), and d) provide access to finance for micro-enterprise.</p> <p>A further objective of the CFLI will be to provide a platform from which to pilot the Saving Gateway, a saving initiative offering matching incentives to save to individuals on low incomes. Consultation on the Saving Gateway was launched by the Treasury in April 2001. These pilots are an essential next step in the development of this policy.</p> | | | | | | | | | | | | | | | | |
| <i>Description of project</i> | The CFLI is a cross-sectoral initiative which will provide an innovative, integrated approach to counter financial exclusion in disadvantaged neighbourhoods by working through trusted community-based organisations to reach out to specific target groups in disadvantaged neighbourhoods. | | | | | | | | | | | | | | | | |
| <i>Round 4 theme (secretariat use only)</i> | <i>Policy category (secretariat use only)</i> | | | | | | | | | | | | | | | | |
| <i>ISB funding sought (2 years only)</i> | <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%;"></td> <td style="width: 40%; text-align: center;">£</td> <td style="width: 20%; text-align: center;">02/03</td> <td style="width: 20%; text-align: center;">03/04</td> </tr> <tr> <td>Current</td> <td style="text-align: right;">688,000</td> <td></td> <td style="text-align: right;">875,000</td> </tr> <tr> <td>Capital</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Total</td> <td style="text-align: right;">688,000</td> <td></td> <td style="text-align: right;">875,000</td> </tr> </table> | | £ | 02/03 | 03/04 | Current | 688,000 | | 875,000 | Capital | | | | Total | 688,000 | | 875,000 |
| | £ | 02/03 | 03/04 | | | | | | | | | | | | | | |
| Current | 688,000 | | 875,000 | | | | | | | | | | | | | | |
| Capital | | | | | | | | | | | | | | | | | |
| Total | 688,000 | | 875,000 | | | | | | | | | | | | | | |

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Executive Summary

DfES (Policy Innovation Unit) and Treasury (Saving Incentives Team) are jointly submitting this bid for Invest to Save Budget funding from Treasury.

Funding is sought to support the piloting of two separate but interconnected policy initiatives: the **Community Finance and Learning Initiative (CFLI)** and the **Saving Gateway**. The CFLI is designed to address financial exclusion in disadvantaged areas by raising literacy and numeracy skills, promoting access to appropriate financial services (basic bank accounts and savings products) and promoting access to micro-finance. The CFLI aims to provide an integrated response to the multi-faceted problem of financial exclusion by working through trusted local community based organisations adopting outreach approaches to target priority groups. The outreach work will test new approaches to targeting individuals who do not take advantage of literacy and numeracy support, and who tend to be excluded from mainstream financial services and activities. The Saving Gateway, to be piloted in conjunction with the CFLI, is a matched savings account aimed at low-income groups intended to ensure the benefits of developing the savings habit and building a stock of assets are targeted at those who stand to gain most by them. It is an important Manifesto commitment for the second term.

The pilots will test partnership arrangements, funding issues and regulatory and legal issues that may arise, as well as explore the links with related work in other Government Departments such as the DTI, Home Office (Community Assets) and the Neighbourhood Renewal Unit. The pilots will provide lessons that will be helpful when considering a wider national rollout.

The initiatives are **cutting edge** involving an innovative partnership of, at least, three government departments, the financial services sector, and the community and voluntary sector. These pilots represent joined up policy thinking in government and joined up delivery at the local level. Both initiatives are citizen-focused, starting from the needs of the financially excluded for information, advice and guidance services tailored to their needs for literacy and numeracy courses, financial services and support to build a financial asset. The CFLI will channel government funding through local community based organizations to the local level to respond directly to local needs.

There will be a number of **benefits** for individuals, the community and government. The CFLI and Saving Gateway **contributes to tackling the root causes of financial exclusion** by providing a platform for building personal confidence and improved skills, civic engagement and wider community regeneration. For government, benefits will be gained from the lessons learned from the pilots that will improve the effectiveness of national rollouts delivering savings on implementation (fraud reduction, central administrative efficiencies and efficiencies in delivery).

There is a large body of **evidence** on unmet needs in relation to literacy and numeracy support and access to financial services. There is also evidence from the American experience of Individual Development Accounts that government has a positive role to play in encouraging people to save by removing the barriers to saving – including the lack of information and education – faced by lower income households. Evidence confirms the need for initiatives such as the CFLI and the Saving Gateway to begin to address these issues.

DfES has allocated £525,000 to the piloting of the CFLI over the two years representing a total of 25% of the total value of the initiative (i.e. £2,088,000). The total funding required from the ISB is £1,563,000.

If the preferred bid is accepted (£1,563,000) and initiatives implemented as planned, benefits downstream will be in the region of £28m cumulative NPV over 9 years. Risks have been assessed and contingency plans identified.

1. Introduction

1.1 This bid for the Invest to Save Budget (ISB) from the Policy Innovation Unit in the Department for Education and Skills and the Saving Incentives Team in HM Treasury is to support an innovative, cross-cutting, and cross-sectoral partnership aimed at combating financial exclusion and piloting new Government initiatives towards delivering incentives to save to low-income individuals. The proposal brings together key stakeholders in central government bodies, the private sector, and the voluntary and community sector to deliver a new initiative. The main partners include:

| | | | |
|--|--------------------------------------|---|---------------------------------|
| Policy Innovation Unit (DfES) (Lead Body) | Saving Incentives Team (HM Treasury) | Adult Basic Skills Strategy Unit (DfES) | Regional Policy Division (DfES) |
|--|--------------------------------------|---|---------------------------------|

1.2 In addition, widespread consultations have been held with a range of other stakeholders to improve the initiative. Support has been secured from organisations ranging across the public, private and voluntary/community sectors and include:

- DTI (Small Business Service)
- DTLR (Corporate Communications Department/GOs)
- The Neighbourhood Renewal Unit
- The Home Office (Strategic Policy Unit)
- British Bankers Association
- Basic Skills Agency
- Association of British Credit Unions
- University of Bristol (Personal Finance Research Centre)
- Financial service providers

Many of these organisations will be involved in the Advisory Group that will be established for the pilots.

1.3 For the purposes of the ISB bid, it will be worth distinguishing between the two main elements of the proposal:

- the core Community Finance and Learning Initiative (CFLI), which will be going ahead in three sites whether this ISB bid is successful or not; and
- the Saving Gateway (SG) pilot, which is dependent on an award from the ISB if it is to go ahead.

1.4 The **CFLI** has the following operational objectives:

- **devolve resources** to trusted local community based organisations to **increase awareness** of, and **access** to, free education and training by reaching out to those excluded from mainstream financial services and learning opportunities
- build **financial literacy skills** through the provision of appropriate training, education and support
- act as a **bridge into basic financial services** (Basic Bank Account, Savings (including the Saving Gateway), Insurance) by providing advice and a signposting service for other providers (e.g. high street banks, the Post Office, credit unions)
- provide a vehicle to deliver **finance for micro-enterprise**

1.5 The CFLI will be delivered through trusted community based organisations which could include community based financial institutions, development trusts, Credit Unions, Citizens' Advice Bureau, and Social Housing providers. Many of these organisations have been consulted in a soft-market testing process intended to improve the robustness of the initiative. DfES has undertaken a formal European Union procurement process and the organisations selected to run the pilots will be chosen from a shortlist of fifteen (see Annex 1 for a brief description of the shortlisted organisations).

- 1.6 The DfES has allocated £0.5m to pilot CFLI in three locations. The funding will be used to support community-based organisations to deliver a range of activities aimed at improving adult literacy and numeracy skills, raising awareness of and access to appropriate financial services and access to finance for micro-enterprise. The planned CFLI pilots will improve the focus on end customers considering what best meets their needs, and enhance service delivery for this particular target group by reducing the number of agencies which individuals have to deal with. The pilots will also exploit the economies of scale which joint working can provide by streamlining delivery channels.
- 1.7 The **Saving Gateway** is a proposal for a saving product targeted at low-income savers who are often not reached by existing tax-based incentives to save. The Saving Gateway will offer to match contributions from savers, up to a limit, with a pound-for-pound matching contribution from the Government. In addition to the financial element, the Saving Gateway will offer targeted and relevant financial information and education to support participants through the process of saving.
- 1.8 Consultation on the Saving Gateway began in April 2001. The next stage in the development of this policy will be to test the practical issues related to developing and delivering the policy in a live environment. The planned CFLI pilots offer an ideal opportunity to leverage the financial education and training being delivered through that initiative by integrating it with the financial account and incentive-structure proposed by the Saving Gateway. At the same time, the CFLI will benefit in delivery of its objectives by being able to focus delivery of personal financial education around the unique incentives offered by the Saving Gateway.
- 1.9 ISB funding is requested in order to increase the number of CFLI pilots and introduce Saving Gateway functionality to a number of these pilots. The Saving Gateway will operate in three pilot areas, with the two other CFLI pilots providing a control situation.

2. Objectives

- 2.1 The Community Finance and Learning Initiative aims to improve the quality and effectiveness of a range of public and private services for those experiencing financial exclusion. The initiative is citizen focused, building service delivery around the needs of the target group thereby improving access to services and saving users' time. It attempts to reduce the long-term costs to society and the taxpayer by helping to lift people out of financial exclusion. The Saving Gateway aims to extend the benefits of saving to low-income groups by providing a targeted financial incentive to save, linked to provision of financial information and education.
- 2.2 It is important to bear in mind, however, that both the CFLI and the Saving Gateway are at the pilot stage. For this reason the primary objective of the project for which ISB funding is sought is to test the following issues so that a wider national rollout will be based on evidence of what works:

| CFLI | Saving Gateway |
|--|---|
| <p>To test out the effectiveness of this initiative and explore different ways of achieving the objectives. In particular, the Pilots will:</p> <ul style="list-style-type: none"> • test partnership arrangements, funding issues and regulatory and legal issues that may arise, as well as explore the links with related work in other Government Departments such as the DTI, Neighbourhood Renewal Unit and Treasury • test the setting of prior agreed targets on | <p>To gain understanding of the challenges that will be faced in delivering the policy on a larger scale. These will arise from the need to integrate:</p> <ul style="list-style-type: none"> • financial account administration; • outreach and local marketing • an element of personalised training or education; • in a way that is both locally delivered and yet nationally scalable. |

the uptake of free literacy and numeracy courses, financial literacy programmes, the number of new 'basic' or 'clear' bank accounts opened and savings accounts opened (Saving Gateway)

- test ways of building relationships with organisations providing financial services, and literacy and numeracy courses
- test provision of guidance and advice on educational and financial products in the target communities
- test the effectiveness of a variety of outreach approaches to identify 'what works'

Specific examples of issues to be tested include:

- the most effective ways to publicise the SG account and attract potential participants
- the design of account-opening procedures
- minimisation of fraud and other "dysfunctional" saving behaviour
- the integration of financial education, delivered through the CFLI, into the service

2.3 The need for the Community Finance and Learning Initiative - the evidence base

2.4 The Community Finance and Learning Initiative has been informed by thinking on four major interrelated problems:

2.5 *Financial Exclusion and Asset Poverty*

Evidence from the Policy Action Team 14 (PAT 14) report on financial exclusion and the wider thinking on assets underpins our thinking on spreading access to financial services, promoting learning opportunities and encouraging the building of financial assets through the Community Finance and Learning Initiative and the Saving Gateway. Financial exclusion means that many in those communities, often those in greatest need, do not have the access to financial services the rest of us enjoy, and are worse off as a result (Access to Financial Services: The Report of Policy Action Team 14 HM Treasury November 1999) <http://www.cabinet-office.gov.uk/seu/2001/PATaudit/14.htm>

Evidence on access to financial services and assets shows that:

- 1.5m low income households (7%) use no financial services (over 2m adults)
- in nearly 1 in 10 households nobody has a Bank or Building Society Account
- many low-income households encounter barriers in opening Bank/Building Society Accounts and many do not want to open accounts for fear of running up debts
- There is a polarised distribution of assets in the UK. During the 1979-1997 period the ratio of households without *any* assets doubled from 5 to 10% of the population.
- a special need for money advice was identified, particularly to help with managing debts

2.6 *Adult Financial Literacy and Adult Literacy and Numeracy*

The CFLI is also informed by figures showing the high numbers of people who lack literacy and numeracy skills. Many people do not have the ability to make informed judgements and take effective decisions regarding the use and management of money. Up to 7 million adults in England have literacy skills below those expected of an average 11 year old. Even more have a problem with numbers. The cost to the country as a whole could be as high as £10bn a year. People with low literacy and numeracy skills earn an average £50,000 less over their working lives, are more likely to have health problems, or to be unemployed.

The report of the Adult Financial Literacy Group to the Secretary of State for Education and Employment, published in July 2000, stated that "... **If adult financial literacy is to be resolved in a real attempt to empower the individual and allow them to become truly self-reliant, then financial skills and understanding need to be improved across most of the population** low income households and disadvantaged communities need particular and personalised help and that is where funding support

should be concentrated”.

The CFLI will seek more effective ways to reach out to those who would benefit from financial literacy and who are currently not being reached by conventional approaches.

2.7 *The need for social investment*

The Social Investment Task Force (October 2000) <http://www.enterprising-communities.org.uk/> identified the need to achieve a transformation of investment flows to support entrepreneurial value creation in those communities which have been most deprived of social risk capital. The report suggested that ways should be found to create wealth, economic growth, employment and an improved social fabric in our most under-invested, and poorest communities.

2.8 *The need for more integrated service delivery*

The fragmented nature of service delivery is widely recognised. Recent research¹ has shown that “financial service provision that exists to meet the needs of poor people is generally fragmented.” This is in spite of the evidence that needs do not come in neat compartments.

A recurrent theme in this research was the need for an integrated “one stop shop approach” encompassing personal savings and loans, loans for micro-businesses, financial literacy, financial information and advice and business support. The problem of fragmentation applies as much in the not-for-profit sector as it does in the commercial world. The study found that the vagaries of funding have encouraged voluntary sector organisations to concentrate on meeting very specific needs, placing them in potential conflict for limited funding.

- 2.9 Research has demonstrated a clear need for financial products and financial literacy support among the financially excluded. Broadly, the research shows there are two main types of unmet needs: for financial products to assist day-to-day money management and financial transactions and for long term financial security (Kempson and Whyley 1999 Kept Out or Opted Out?). PAT 14 also demonstrated that existing availability of money advice is patchy and alternative ways should be sought to promote better understanding of banks and other financial services to enable people to make informed choices, so helping to break self-exclusion barriers, and increase the chances of their managing the products they acquire.
- 2.10 The CFLI is a **citizen focused** response to these problems which seek to **improve the quality and effectiveness of public services** in this area and addresses the **causes of financial and social exclusion**. It does this in the following ways:
- 2.11 Trusted local community groups funded to work in partnership to provide a more integrated service based on the needs of the financially excluded and adopting outreach approaches to target priority groups.
- 2.12 CFLI will contribute to the aims of *Skills for Life: The national strategy for improving adult literacy and numeracy skills* by encouraging radical improvements to literacy and numeracy education and training and by encouraging a higher take-up of learning opportunities. The CFLI will work with the Basic Skills Agency and a range of education providers to develop innovative approaches to deliver literacy and numeracy courses.
- 2.13 CFLI will help overcome barriers to the use of financial services and access to learning by providing a trusted local gateway on behalf of a range of citywide services not located in the area. The CFLI will act as an agency for other service providers raising awareness of what is available and helping overcome the attitudes of the unbanked who feel that banks are not interested in them as customers or do not have products that meet their needs. Basic bank accounts, offering a simple ‘no frills’ money transmission account with automated credit transfer, cash machine card, direct debit and standing order facility, are now widely available. These accounts which are not subject to credit checks, involve identity checks local residents could meet, offer a full range of banking services without

¹ Collard et al Tackling Financial Exclusion 2001 Joseph Rowntree Foundation 2001 p 46

the risk of going overdrawn. The CFLI will challenge misconceptions about what having a bank account involves and how much it costs. The most effective ways of overcoming misconceptions are through trusted intermediaries like family, friends and voluntary/social organisations. Research conducted in Bristol by Collard et al (2001) showed that when people learned about these accounts they were attracted to opening one.

2.14 The CFLI will build on proven good practice in community outreach, the provision of financial information and guidance, and the delivery of innovative literacy and numeracy programmes. Many of the organisations shortlisted for selection as pilot organisations are at the cutting edge of practice in one or more of the areas involved in the pilots. For example, Portsmouth Area Regeneration Trust (PART) recently won the Business in the Community Neighbourhood Renewal Award for offering a credit and loan scheme to high risk individuals, helping individuals better manage debt and regain control of their finances, and supporting small business start ups.

2.15 A high number of people who are financially excluded are from ethnic minority groups who often face additional barriers to becoming financially literate including language and cultural barriers. This wider social exclusion makes this group particularly vulnerable and difficult to reach. The CFLI will address this by adopting culturally sensitive outreach approaches to make information and services more accessible to this group.

2.16 The Saving Gateway- the evidence base

The Government's Saving Strategy

2.17 The Government recognised the benefits of financial assets in *Helping People to Save*, a consultation paper published as part of the Pre-Budget Report in November 2000. It identified the importance of savings in providing people with:

- independence throughout their lives;
- security if things go wrong; and
- comfort in old age

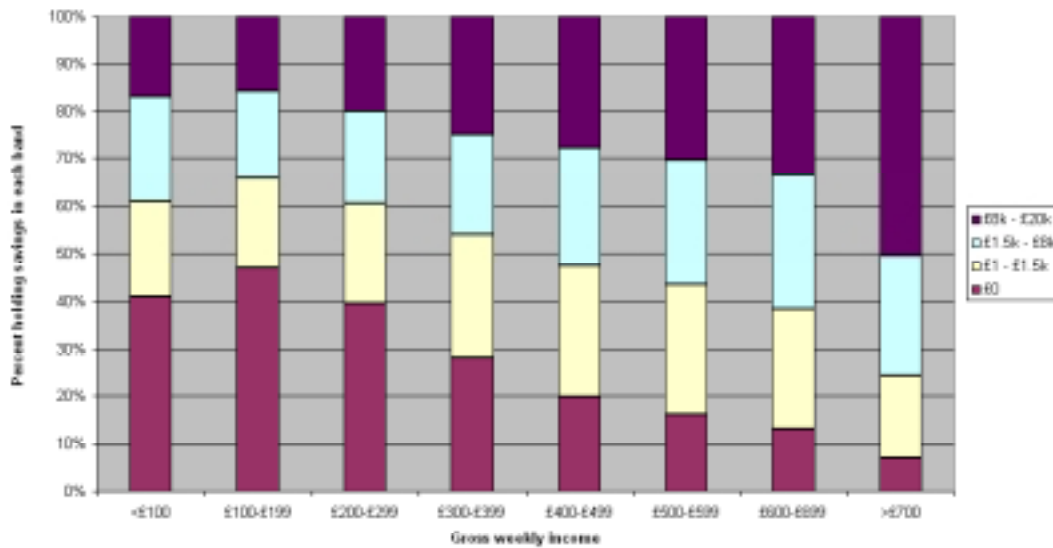
2.18 The Government wants more people to enjoy these benefits. However, for a long time there has been a concern that too many people have no, or insufficient levels of, saving. Evidence from the 1998-99 Family Resources Survey on the amount of money that people have in liquid financial savings. It states that a high proportion of the population reported that they have none. More than a quarter of households had no savings at all, while a further 22% had less than £1,500.

2.19 As the chart below shows the problem is particularly serious for those on low incomes. 46% of those on household incomes of less than £200 per week and 43% of those on less than £300 per week have no financial savings at all (excluding housing and pensions but including current accounts).

2.20 A growing body of recent research suggests that financial literacy and institutional familiarity that are working together and preventing those on low incomes from saving². A recent study looking at financial exclusion in an inner-city neighbourhood in Bristol looked at a range of personal finance issues including saving. The study concluded that in addition to low incomes and unemployment, low levels of financial literacy, combined with low levels of engagement with financial services in the community as a whole act as an important constraint to individuals' saving behaviour. These effects are exacerbated by the particular problems of living in an area of high deprivation – there are fewer financial service providers represented in the area, overall levels of basic educational skills such as literacy and numeracy are low, and the concentration of financially excluded individuals means that there are fewer people in the community to whom individuals can turn for basic information about financial services.

²For example see Kempson and Whyley, 'Kept out or opted out?: Understanding and combating financial exclusion.' The Policy Press/Joseph Rowntree Foundation 1999 and Banks and Tanner, 'Perceptions of Saving: An economic analysis of focus group evidence,' IFS mimeo, 1999.

Chart 1: Amount of Financial Savings (excluding pensions and housing, including current accounts) by Gross Household Weekly Income



2.21 Additional evidence from focus group research has reported findings that, “lower income groups have a total lack of engagement with financial products [arising] from either a lack of information about the products or, more realistically, a lack of relevance of the products to these groups.”³ Significantly, the same study reports that these groups show low levels of ownership of financial assets other than housing and occupational pensions.

2.22 The proposal for the SG is designed to fit into the Government’s saving strategy by directly targeting those on low incomes by offering them a real financial incentive to save together with the information and education they need to help them make informed choices about their saving decisions.

2.23 Evidence from America of the Individual Development Account, a matched savings vehicle, demonstrated that people were encouraged to save and that those from low-income groups saved a higher proportion of their disposable income than those from higher income groups.

2.24 Annex 2 provides a list of estimates of quantified targets and impacts on project users in each of the areas to be covered by the CFLI and Saving Gateway.

3. Funding requirements for project

3.1 The DfES will allocate resources of £275,000 in the first year and £250,000 in the second year. This represents 27% of the total project value in the first year and 25% in the second year.

3.2 If less funding were allocated the Saving Gateway pilot would not be able to proceed. The CFLI would proceed although the scope and level of activity would be compromised. It is not possible for the bidders to increase their contribution to the project.

3.3 The following table presents the funding profile for the initiative.

| | | |
|--|-------|--------|
| | 02-03 | 03-04* |
|--|-------|--------|

³ Banks and Tanner, ‘Perceptions of Saving: An economic analysis of focus group evidence,’ IFS mimeo, 1999.

| | | |
|-----------------------------|---------|-----------|
| ISB funding | 668,000 | 875,000 |
| of which: current | 668,000 | 875,000 |
| capital | | |
| Bidders' own funding | - | - |
| DfES | 275,000 | 250,000 |
| <i>of which:</i> | | |
| current | 275,000 | 250,000 |
| capital | | |
| TOTALS | 943,000 | 1,125,000 |

* if applicable

4. Innovation

4.1 The Community Finance and Learning Initiative is innovative in five respects:

4.2 Innovative partnerships

The CFLI represents an innovative cross-sectoral partnership involving active participation of at least three government departments, the financial services sector and the community and voluntary sector. The Pilots will test partnership arrangements, funding issues and regulatory and legal issues that may arise. They will also explore links with related work in other Government Departments such as the DTI Community Development Venture Fund, the Home Office's work on Community Assets and the Neighbourhood Renewal Unit's Neighbourhood Renewal Fund.

4.3 Joined-up delivery of public services to combat financial exclusion

By combining multiple strands of current government policy with local community and voluntary based service delivery into a coherent and joined up delivery vehicle, the CFLI will enable individual policies to greatly increase their reach and effectiveness. Integrating the four strands of activity set out in the objectives will enable the financially excluded to access, in one place, the services required to gain the skills to make informed decisions about their finances, manage debt more effectively, access micro-finance and build a financial asset to help overcome financial exclusion.

4.4 Devolving government funding to the local level to respond directly to local needs

The CFLI will devolve financial resources for the delivery of key government initiatives into the heart of excluded communities. This will deliver local, innovative solutions to specific local needs, creating 'bottom-up', citizen-focused services. The outreach work will test new approaches to targeting individuals who tend to be excluded from mainstream financial services and activities.

4.5 Re-defining the relationship between central government and local communities

The CFLI has the potential to redefine the way government connects with local communities. By placing a community perspective at the heart of government policy, the CFLI supports the capacity, social capital and confidence of local communities to take responsibility for the challenges they face.

4.6 Citizen-focused – recognising the needs of the financially excluded

The CFLI has been developed in response to the evidence of the needs of the financially excluded. It recognises that needs do not come in neat compartments but that, in contrast, the services that exist to meet the needs of poor people are generally fragmented and do not reach out to those most marginalised. A more integrated and targeted approach will greatly improve both the effectiveness and value for money

obtained from existing government policies and programmes being promoted through the CFLI and the Saving Gateway.

The **Saving Gateway is itself innovative** in its approach to the issue of saving incentives. Whereas existing incentives to save are based on tax reliefs and are delivered through market-based solutions provided by private financial services companies, the Saving Gateway will offer matching of saving contributions specifically targeted at low-income groups and accompanied by financial education and information. This approach, while innovative in the UK context, has been tested elsewhere and found to be effective. Individual Development Accounts in the United States have used a combination of matching incentives and financial education to increase saving among low-income individuals.

4.7 Similar schemes

We are unaware of any similar initiatives that exactly matches the CFLI or the Saving Gateway. There is currently no other delivery vehicle in England suitable for channelling and targeting educational and financial support, guidance and information and to deliver the government's policy on the Saving Gateway.

However, there are examples of approaches that have addressed selective aspects of the CFLI. The Wester Hailes Representative Council in Edinburgh launched a community banking initiative in April 2001. In their first six months:

- 519 new bank accounts have been opened.
- A very successful 'Be Your Own Boss' event was held, guidance given to 40 people.
- They are looking to recruit an 'Enterprise Guide' who has helped 15 people move into the formal economy within the last year in Craigmillar.
- A survey has indicated a heavy demand (87% of Prospect Community Housing tenants) are interested in a new saving account being developed.
- Barnardo's 16+ project (with around 35 young people) and New Deal clients (up to 350 young people) will soon receive financial literacy support from this scheme.

Funding for this work and the research that led up to it has been provided by the Bank of Scotland and the Scottish Executive through the west Edinburgh Pathfinder. This has helped the Bank of Scotland to win the Institute of Financial Services' 'Most Impressive Community Banking Service Programme in the UK'.

5. **Benefits to users**

- 5.1 The CFLI and the Saving Gateway are designed to pilot new ways of working to establish a better understanding of the potential costs and benefits before a national roll out is considered. This citizen focused approach to service delivery will produce tangible benefits by engaging directly with educationally and financially excluded groups via trusted, local organisations. Although the initiative is expected to have far reaching benefits for individuals, communities and for existing government policies and programmes, estimates of the magnitude of such benefits at this stage can only be tentative. Estimated benefits and the assumptions which underpin them are set out in Annex 2. An analysis of the risks that may affect the benefits is presented in Annex 3. Annex 4 presents the calculations of cumulative Net Present Values.

5.2 **Individual Benefits**

It has been estimated that people with low literacy and numeracy skills earn an average £50,000 less over their working lives, are more likely to have health problems, or to be unemployed. Perversely, life is more expensive for those who are financially excluded. Operating a household budget outside mainstream financial services is costly. People without bank accounts may have to pay to have a wages cheque cashed and they can also pay up to 20-40% more for their gas and electricity due to reliance on pre-payment meters and their lack of access to discounts available to those who can pay by direct debit.

Tangible benefits for the individual will include:

Financial inclusion

- Improved financial literacy and ability to make informed judgements concerning finance
- Regain control of finances and better able to manage debt
- Benefit from the services of a Basic Bank account e.g. cheaper bill payment by direct debit, no charges for cashing cheques
- Building up an asset via the Saving Gateway for a specific purpose or rainy day. A recent study by Social Enterprise London (2001) has shown that saving money can improve health and well-being of people living in deprived communities.

Education

- Improved literacy and numeracy skills leading to increased employability
- Greater personal confidence

5.3 Community Benefits

- Support for existing community based organisations
- Community-led - appropriate solutions for local problems
- Build confidence in people's own community
- Drive community regeneration
- Government funds channelled to the heart of excluded communities
- Macro benefits of asset accumulation: lower crime, better health, increased personal stability and higher employment

5.4 Benefits to Government

CFLI contributes to the Modernising Government agenda through the transformation of public and community service delivery within local communities. Government programmes and community services will be more focussed on the needs of the end customer, improving the quality and effectiveness of those services.

- Government connects directly with communities
- Government programmes responding more directly to the needs of individuals within excluded communities
- Social enterprise encouraged
- Saving habit encouraged

Improvements in employability due to the literacy and numeracy skills will result in benefits to the Exchequer arising from people moving out of unemployment. The accumulation of financial assets will develop greater independence, security and comfort in old age. Saving may arise for the state due this greater financial independence and the accumulation of assets.

5.5 Benefits to SG target group:

Implementation of the SG was a manifesto pledge by the Government and could be rolled out nationally in the lifetime of this parliament. Small-scale programme testing prior to national roll out would provide benefits to the SG's target group in the form of:

- increased efficiency of the program delivery mechanism;
- provision of an appropriately scaled central administrative function minimising bureaucratic delay;
- more effective targeting mechanisms; and
- effective integration of financial education into SG;

All of the above would benefit the individual participants by providing them with higher quality government service. Market testing provides a unique opportunity to iron out weaknesses in the SG scheme and the chance to minimise the sources of stress and inconvenience to eligible individuals that arise from bad design.

Quantification of these benefits to an informative degree of accuracy is unlikely to be possible because of the extensive dependence on many potentially variable assumptions. However, it is worth noting that no financial services provider would

attempt to launch a similar saving product without first undertaking market testing to check that the product is practical and meets the needs of the end user.

6. Estimated savings

6.1 The main aim of the CFLI is to improve the quality, effectiveness and value for money of services delivered to people living in disadvantaged areas which will result in improvements in the quality of their lives. There will be direct and indirect savings for Government which will arise from improved employability, lower crime, better health, increased personal independence and lower rates of (long-term) unemployment. Figures are set out in the economic appraisal (Net Present Value calculations) in Annex 4.

6.2 The estimated potential savings for the Saving Gateway are set out below:

6.3 Reduction of administrative burden:

- Latest cost estimates of the SG predict that there may be as many as 2.5 million eligible users at the point at which the policy is introduced nationally.
- The estimated administration cost of running these accounts is £75 per account per year, with accounts lasting between three and five years.
- Assuming an average of four years per account, the total administrative cost of running these accounts would be £750 million.
- If running pilots succeeds in reducing these costs by 2%, the saving would be £15 million.

6.4 Fraud:

- The maximum available benefit from the Saving Gateway is £1,000 per account.
- With a total eligibility pool of 2.5 million accounts, the maximum possible liability to fraud faced by the Government would be £2.5 billion.
- Specific design features of the Saving Gateway, such as low monthly limits on saving, and lack of access to matching contributions, will limit the actual liability to levels far below this figure.
- However, if running pilots succeeds in reducing the overall fraud liability by just 0.5%, the saving would be £12.5 million.

7. 'Additionality' test

7.1 The DfES has committed £525,000 to the CFLI to fund three pilots. This initiative is supported by staff across the Department. DfES has been working closely with the Treasury on the Saving and Assets policy options announced in April 2001 (The Modernisation of Britain's Tax and Benefit System Number 8. Saving and Assets for All). This ISB bid is a joint DfES/HMT bid to improve the CFLI pilots by increasing the number of pilots and to pilot the Saving Gateway which is supported by the Saving Incentive Team in the Treasury. Each partner body is committed to supporting the project. With only three pilots it will be difficult to test the full range of variables. ISB funding would enable the number of pilots to be extended to five and a more comprehensive range of delivery vehicles, partnerships, contexts, and outreach approaches to different target groups could be tested. This will also provide a control of two areas where the SG will not be piloted. This will produce better quality findings from the evaluation and a better quality evidence-base on which to make decisions about a wider rollout.

7.2 The CFLI would proceed without ISB funding but on a more limited scale. The Saving Gateway would not proceed. Funding from the ISB is the only way the Saving Gateway will be able to proceed at the present time to run in conjunction with the CFLI. The Saving Gateway needs local intermediaries to undertake outreach work to raise awareness of the product. The CFLI will provide this outreach work. There are economies of scale in running the CFLI and Saving Gateway in conjunction with each other in terms of the costs of procurement, funding of the pilot organisations, management and oversight of the initiative, and evaluation of the pilots.

8. Accountability and audit

8.1 Day-to-day management

This initiative is a joint DfES/HMT venture. The overall responsibility for the CFLI pilots will rest with the designated Accounting Officer in the DfES who will work closely with colleagues in the Treasury. The day-to-day responsibility for the implementation, monitoring, evaluation and maintenance of financial propriety for the projects will be delegated to a nominated DfES official currently Roger Langdon in the Regional Development and Capacity Building Team.

8.2 Contracting procedures

Contracting, accounting and management of the projects will follow DfES standard practice as prescribed by Procurement and Finance Divisions and Treasury guidance. The management and finance systems and arrangements will be subject to review by DfES Internal Audit and NAO audit process. It is intended to invite Internal Audit to advise on implementation systems and arrangements.

8.3 Steering Group and Advisory Group

| The CFLI Steering Group | The CFLI Advisory Group |
|--|--|
| <p>Nick Oatley - Policy Innovation Unit (PIU) Mark Morris - PIU Felicity Winter - Regional Policy Division Roger Langdon - Regional Policy Division Jane Bateman - Adult Basic Skills Strategy Unit Jacqueline Shurlock - Adult Basic Skills Strategy Unit Chris Munday - Programme Expenditure Team, Finance Division Neil Oxley - Strategic Procurement Projects Isobel Mill - Government Office for Yorkshire and Humberside</p> | <p>The CFLI Steering Group Gill Hind - Financial Services Authority Emil Levendoglu - HM Treasury Mary Doyle - Neighbourhood Renewal Unit Mark Hambly/ Steve Chambers - Small Business Service Andrea Mearing - Basic Skills Agency Eoghan Howard - Wester Halles Representative Council Malcolm Hayday - Charities Aid Foundation Irene Seller - Post Office/ Consignia Andrew Robinson - Nat West Bank Mike Young - British Banking Association</p> |
| Remit | Remit |
| <p>Consisting of key DfES stakeholders, the executive Steering Group decides upon and drives forward the development of the CFLI strategy and is responsible for management decisions regarding the strategic direction of the pilots.</p> | <p>A wider Advisory Group will be created to provide advice and guidance to the pilot organisations throughout their operational life. This group will represent all interested stakeholders as listed above.</p> |

8.4 A separate steering group will be set up to oversee the Saving Gateway, reporting to the Economic Secretary to the Treasury. Key members will include representatives of:

- the Treasury (chiefly responsible for attracting interest from financial service providers);
- DfES (chiefly responsible for the financial education and outreach elements through its CFLI pilots, and for making matched payments);
- the Inland Revenue.

8.5 The steering group will oversee:

- design of Saving Gateway account specification;
- recruitment of financial services provider;
- evaluation of Saving Gateway pilot elements, including possible separate procurement of evaluation partner for the SG; and
- interaction of SG pilot elements with CFLI initiative.

9. Project cycle management

9.1 Economic appraisals explaining the underlying assumptions and setting out the calculation of the net present value of the pilots are attached at Annex 4.

9.2 *Project Monitoring*

The contracts will set out what will be required of the pilot organisations allowing a degree of flexibility to enable pilots to adapt and change their implementation activity as required. Each pilot will develop a rolling workplan including appropriate timetables, key budget spend and SMART performance criteria. As the workplans will be dynamic documents, projects will be able to propose changes in activity or emphasis in response to local circumstances. The activity in the workplans will be discussed and agreed with the DfES Project Manager and the agreed workplan will provide authority for the pilots to implement the activity. Expenditure associated with activity not agreed in a workplan will not be eligible to be accounted against the project.

Implementation of the project will be reviewed against the agreed workplans at regular bilateral meetings between the project and the DfES project manager.

Financial monitoring will be undertaken against the profiled expenditure agreed as part of the workplans and the implementation of the agreed activity. As with the workplans the budget profile will be a rolling document subject to revision and agreement at the project review meetings. The contract will define the overall budget allocation by financial year and under set budget headings. Expenditure within financial years will be fixed. Movement between budget headings will be subject to written agreement and contract variation by the DfES Project Manager.

9.3 *Evaluation*

An evaluation of the CFLI and Saving Gateway will be commissioned to run in parallel with the pilot projects. The aim for the beginning of this contract will be early in 2002. The evaluation will be tendered under standard DfES tendering procedure and in conjunction with the DfES' Analytical Services Division. The evaluation will analyse how the pilots have performed against their objectives and will focus on those issues identified in section 2 Objectives above.

Evaluators will work with pilots to agree an effective approach towards an evaluation of the initiative. This would include agreement on appropriate baselines, milestones and success criteria. It would also agree the range of issues associated with operational matters. The evaluators would facilitate a learning network that would operate during the course of the pilots to enable transfer of ideas, solutions and emerging good practice. This learning network would meet every four months to assist the projects to draw together and exchange learning from the implementation process and to undertake interim assessments of the process and the impact, including the celebration of successes.

The evaluation will conduct a rigorous analysis of the implementation process and will identify lessons learned and what works. The evaluation will examine and assess the impact of the pilot activity in achieving the objectives for the CFLI and Saving Gateway pilots. In addition to quantitative data on the take-up of basic bank accounts, numbers of people undertaking different forms of financial literacy development, number of saving accounts opened and by which income groups etc., the evaluation will also undertake a qualitative assessment of the pilots in relation to the effectiveness of the operational processes (outreach, partnership arrangements, quality and effectiveness of guidance, etc).

The evaluation process will also undertake longitudinal tracking of a selection of beneficiaries from their initial contact with the project through to the end of the project (at least), to attempt to identify any longer-term associated impacts on beneficiaries (e.g.

development of a saving habit, a move into employment, or progression into the formal education/training system).

The evaluation will also be required to comment on the prospects for a wider roll out and should contain recommendations that reflect on this. This evaluation would provide the basis for the recommendation to the SoS on whether or not the initiative should be implemented nationally.

Annex 1. Shortlist of community-based organisations

1. Places for People, Old Trafford, Manchester

A partnership of social housing providers including 5 Registered Social Landlords with responsibility for over 52,000 homes and a wide variety of regeneration initiatives across the country.

2. Ellesmere Port & Neston Borough Council, Ellesmere Port

The Council will act as accountable body overseeing the Ellesmere Port and Neston Community Finance and Learning Partnership.

3. PART (Portsmouth Area Regeneration Trust), Portsmouth

PART is a CDFI aimed at combating financial exclusion through advice, affordable loans and a free cheque cashing service, and a Micro-Enterprise Loan service. PART works through the City Council, Employment Service, Housing Associations and the Portsmouth Savers Credit Union. PART also works closely with The Prince's Trust and Lloyds Bank.

4. Peabody Trust, London, SE1

London's largest social landlord with a mission to fight poverty in London by bringing learning, vocational skills training and a range of help and support initiatives direct to poor neighbourhoods.

5. Birmingham Settlement, Birmingham

Operates 24 projects from its 4 bases in Birmingham; over 300 strategic and operational partners involved in a significant range of wider regeneration initiatives.

6. Community At Heart, Bristol

A charitable, community based company established to deliver and administer the New Deal for Communities (NDC) programme in Bristol over a 10-year period.

7. Toynbee Hall, London, E1

A voluntary sector organisation with a turnover of £1.6m and 60 full time equivalent staff; over 500 volunteers contribute to Toynbee's work each year.

8. The Home Group, Newcastle

Provider of rented housing, supported housing and low cost home ownership schemes. Has a comprehensive social inclusion strategy with four themes: anti-poverty, support for vulnerable tenants, neighbourhood management and community support.

9. People For Action, Birmingham

A shared learning network providing opportunities for its members to develop and share best practice in community investment. Intend to work with their housing association (HA) partners on the CFLI with experience in benefits & debt advice, basic skills training, employment training.

10. Salford Moneyline, Salford

Salford's independent community loan company delivering a range of personal and business loan products and advice.

11. Bootstrap Enterprises, London, E8

Focuses on the delivery of a range of estate-based employment and training advice and guidance services including; work based learning, I.T skills, ESOL, and basic skills for the unemployed people in Hackney, Camden and Lambeth.

12. Gloucestershire Neighbourhood Projects Network, Gloucester

A 'bottom up' alliance of 8 resident managed neighbourhood development trusts.

13. Groundwork Tameside, Stalybridge, Manchester

A locally based charitable trust, part of a network of 44 Groundwork Trusts covering England, Wales and Northern Ireland. The lead partner in the delivery of the New Deal for Employment Programme within the Tameside Borough.

14. The Cape Hill & Windmill Development Trust, Smethwick, West Midlands

Aims to redress disadvantage by creating and developing community enterprise activity; providing employment opportunities through relevant training; managing community assets; providing support and advice to other community organisations; environmental improvement and safety; supporting and actively engaging young people.

15. The Individual Learning Company, West Malling, Kent

A not-for-profit organisation providing support to key stakeholders in the development and delivery of new lifelong learning initiatives. Activities include work on basic skills development, learning loans provision and supporting Connexions in Kent.

Annex 2. Benefits (per pilot area)

| Activity | Benefits | Assumptions | Improved Service | Benefits and Savings |
|---|--|---|---|---|
| Increased take up of free education and training | <p>Raised skill levels</p> <p>Increased employability</p> | <p>500 people in each area over 2 years</p> <p>500 people in each area (12% achieve jobs as a result and 9% improve their salary)</p> | Better targeted free education courses | Benefits to individuals and the economy of new disposable income circulating. Savings in Job Seekers Allowance |
| Increase levels of financial literacy | <p>Individuals better able to make sound financial decisions</p> <p>Less vulnerable to miselling by loan sharks or unscrupulous organisations</p> | <p>750 in each pilot area over 2 years</p> <p>225 in each area prevented from taking out loan from loan sharks</p> | Individuals more likely to access a range of appropriate financial services | <p>Savings due to wiser saving and budgeting decisions</p> <p>Savings due to rescheduling of debts with extortionate interest rates</p> |
| Bridge into basic financial services (Basic Bank Account, Savings (including the Saving Gateway), Insurance) | <p>Individuals have access to basic banking services</p> <p>Individuals develop a saving habit through access to Saving Gateway and development of a greater stake in society</p> <p>Individuals gain greater financial independence due to the accumulation of an asset</p> <p>Macro-benefits of asset accumulation; lower crime, better health, increased personal stability and higher employment</p> | <p>1,500 open a basic bank account in each area over 2 years</p> <p>400 people open the Saving Gateway in three areas over the 2 year period</p> <p>Gains of greater financial independence</p> <p>Crime rate reduced; health of people improved (stress related illnesses reduced); unemployment reduced</p> | <p>Banking services more effective through bridging role of CFLI</p> <p>Saving Gateway effectively targeted on low income groups</p> <p>Individuals in a position to access public and private services due to better awareness</p> | <p>Savings due to cheaper bills due to direct debit facility (20-40% cheaper)</p> <p>100 people encouraged to become active citizens and vote.</p> <p>People access appropriate financial products (savings, bank services, insurance)</p> <p>Savings to the state due to fewer crimes committed, less demand on the health service and less demand on the public purse for Job Seekers Allowance</p> |
| Access to micro-finance | <p>Individuals have access to micro-finance denied by traditional sources</p> <p>Individuals able to reschedule loan shark debts</p> | <p>People assisted through access to personal micro-finance</p> <p>100 people helped out of bad debt in each area</p> | Sources of micro-finance reaching a marginalized target group | <p>5 SMEs established over 2 years in each area employing on average 2 people each</p> <p>100 people save on the rescheduling of their debts</p> |

Annex 3. Risk Schedule

| Dimension | Risk | Contingency |
|-----------------------|--|--|
| Organisational | <p>Failure to appoint staff with sound knowledge in relevant areas</p> <p>Project highly dependent on factors outside the control of partners e.g. unwilling or uncooperative partner</p> <p>Legal and regulatory constraints of financial institutions, limiting long lasting and radical solutions to financial literacy and access to financial services</p> <p>Competence of staff to provide independent financial advice</p> | <p>Pilots will be selected on their track record of delivery in this area. A six month capacity building period will enable new staff to be recruited</p> <p>Pilots are given six months to build partnerships. Pilots will be selected on their track record of effective partnership working</p> <p>Many shortlisted organisations have excellent relations with mainstream financial services. Pilot organisations will be chosen that have experience of overcoming these barriers</p> <p>The CFLI does not require pilots to give independent financial advice as regulated by FSA. However, organisations may have access to such advice through regulated financial advisors as part of their partnership arrangements and may act as a referral agent for this service</p> |
| Process | <p>Take up of support and advice is less than anticipated (people unwilling to acknowledge they need assistance or feel that financial services and literacy and numeracy programmes are not for them). The truly marginalized will not be reached</p> <p>CFLI is overwhelmed by the local response from residents (e.g. massive demand for Saving Gateway Accounts)</p> <p>Attempts to commit fraud (particularly via the Saving Gateway)</p> <p>Inadequate monitoring and control processes</p> | <p>Pilots will be chosen for their experience of conducting effective sensitive outreach. Pilots will build on existing initiatives and the trust they have within the community in developing community ownership. A focus must be maintained on reaching those that have not been reached before</p> <p>Pilots will be required to produce a delivery plan linked to baseline data of the target group. Careful targeting of the priority groups will enable demand to be managed and phased if necessary. A focus must be maintained on reaching those that have not been reached before</p> <p>Resources used by the organisations will subject to strict accounting and financial monitoring procedures overseen by DfES. The financial providers, who will be the account holders of the Saving Gateway, will be required to put in place procedures to detect and combat fraud</p> <p>The evaluators will be required to work with pilots to establish appropriate monitoring and control processes</p> |
| Output | <p>Over-ambitious targets (e.g. aspirations for Saving Gateway Accounts opened)</p> <p>Over-ambitious budgets. Funding profile unrealistic and no contingencies built-in</p> <p>Match-funding does not come through (e.g. organisations applying for DTI Phoenix Fund)</p> <p>Unable to deliver such wide ranging outputs and outcomes within the time frame and finance available</p> <p>Micro-finance loans will involve lending to individuals who are generally regarded as 'high-risk' by traditional lenders running the risk that a high proportion of loans will default</p> | <p>Targets will be based on baseline studies of need in each area. The evaluators will be required to work with pilots to establish appropriate targets</p> <p>The pilots have been guided in the amount of funding available. They have submitted proposals which contain detailed funding profiles based on this figure. There will be negotiations to ensure that budgets are realistic.</p> <p>Match-funding not required. Pilot organisations are already active in one or more of the CFLI areas and funding is provided to address the full range of CFLI services. Pilot organisations will have substantial resources to draw on from partner organisations.</p> <p>Pilots will be selected on the basis of their detailed delivery proposals. If an implementation gap arises monitoring and evaluation procedures will alert DfES of the problem which can then be addressed</p> <p>Evidence shows that loans to high-risk individuals in community settings involve low default rates.</p> |
| Time | <p>Pilots take longer to develop capacity to deliver due to unforeseen circumstances</p> | <p>Pilots will be given a six-month period to establish their capacity for delivery. During this time they will be supported by DfES and the evaluators</p> |

Annex 4. Economic Appraisal (Calculation of Net Present Values)

Below are the results of an economic appraisal of the CFLI and the Saving Gateway. The cumulative N.P.Vs are calculated over 5 years for the CFLI and 9 years for the Saving Gateway recognizing the fact that these initiatives will generate benefits that will accrue long after the funding for the pilots has ceased. Quantitative estimates have been made where possible but it has not been possible to put credible quantitative estimates on a range of benefits arising from these two initiatives. These include:

- The improvements in health, well-being and personal confidence arising from improved literacy and numeracy skills and a shift out of unemployment to employment
- Improved effectiveness of the wider roll out for the CFLI resulting in better targeting of services, outreach based on proven approaches
- Growth of civic engagement and increase in social capital as a result of the CFLI and Saving Gateway

Assumptions underpinning Net Present Value (NPV) calculations

Access to literacy numeracy courses

Leads to gains in salary and people moving from unemployment to employment and improvements in salary as a result of improved skills. People with low literacy and numeracy skills earn an average £50,000 less over their working lives, are more likely to have health problems, or to be unemployed (DfES 2001 Skills for Life.)

The general employment benefits includes two aspects: the number of people moving from unemployment to employment as a result of higher literacy and numeracy skills multiplied by an average salary figure; and the increased salaries earned as a result of improved skills.

The increase in earnings differential is based on a move from 'no-skills' to 'low-skill' earnings, assuming that some individuals were in employment before attending courses, but having improved their literacy and numeracy skills, are able to earn a higher salary. We have taken the average weekly wage data for the relevant groups (from the Labour Force Survey) and scaled it up to an annual salary, then up-rated that figure for employer on-costs (25%), and real wage growth (2% per annum).

| | No skills | NVQL1 |
|------------------------|-----------|---------|
| Average weekly wage | £199.71 | £206.01 |
| Annual salary | £10,421 | £10,749 |
| Salary+on-costs (@25%) | £13,026 | £13,437 |

| Real wage growth @2% | Year 0 | Year 1 | Year 2 | Year 3 | Year 4 |
|----------------------|---------|---------|---------|---------|---------|
| No skills | £13,026 | £13,286 | £13,552 | £13,823 | £14,099 |
| NVQL1 | £13,437 | £13,705 | £13,979 | £14,259 | £14,544 |
| Difference | £411 | £419 | £428 | £436 | £445 |
| Numbers per pilot: | | | | | |
| New jobs | 10 | 50 | 25 | 20 | 15 |
| Increased salary | 5 | 40 | 20 | 15 | 15 |

The figures in the NPV tables above are based on assumptions that 500 people will benefit from literacy and numeracy courses in each pilot area. The figures are additional net impacts for each pilot area allowing for estimates of leakage, deadweight, displacement, substitution,

multiplier effects). The cumulative NPV will benefit beyond the period of funding.

Financial literacy

Informed judgements over finances leading to the prevention of debt to loan sharks. Calculations based on an example of savings from a loan of £500 comparing rates of interest of 233% through loan sharks and 15% through Credit Unions and Building Societies (Donovan and Palmer 1999 Meaningful choices. The policy options for financial exclusion).

| | Year 0 | Year 1 | Year 2 | Total |
|-------------------------------|--------|--------|--------|--------|
| Mainstream repayments | £192 | £192 | £192 | £575 |
| Loan shark repayments | £555 | £555 | £555 | £1,665 |
| Difference (savings) | £363 | £363 | £363 | £1090 |
| People benefiting (per pilot) | 50 | 175 | 50 | 275 |

Access to financial services

People without bank accounts will have to pay to cash a wages cheque and they can also pay up to 20-40% more for their gas and electricity due to reliance on pre-payment meters and their lack of access to discounts available to those who can pay by direct debit (Donovan and Palmer 1999).

Calculations based on savings accruing due to use of direct debits to pay utility bills to pay average monthly bills £40 per month for telephone, electricity, and gas. 30% savings assumed (£12 per month per household). This will result in savings of £144 per year per household that opens a basic bank account and uses this to pay bills. The numbers in the calculations are based on data that there are 10m without bank accounts (or 11% of the population) and approximately 30% of these will want to open a basic bank account and that of these approximately 25% will want to use the facility of direct debits to pay bills (i.e. for an area of 200,000 popn, 22,000 will be without a bank account, 6,600 will want to open a bank account, and 1,650 will want to use this to pay bills by direct debit over the two years).

Micro-finance

5 new SMEs established in each pilot area. On average 2 additional jobs created per SME i.e. 10 jobs created per pilot area over the two year period.

Average salary (£12,000)+on-costs (@25%) = £15,000. Allowing for real wage growth @2% the figures per job created are as follows together with the number of new jobs expected to be created in each pilot area for each of the five years shown (this figure represents the net additional impacts allows for leakage, deadweight, displacement, substitution, multiplier effects and estimates of business-start up failure). The cumulative NPV will benefit beyond the period of funding:

| Year 0 | Year 1 | Year 2 | Year 3 | Year 4 |
|---------|---------|---------|---------|---------|
| £15,000 | £15,300 | £15,606 | £15,918 | £16,236 |
| 6 | 15 | 0 | 0 | 0 |

Saving Gateway

The costs of the Saving Gateway pilot are broken down as follows:

| Saving Gateway x2 | Year 0 | Year 1 |
|-----------------------------|------------|------------|
| Match | 125 | 250 |
| Administration | 50 | 50 |
| Evaluation | 125 | 125 |
| Total (for 2 pilots) | 300 | 425 |

| Saving Gateway x3 | Year 0 | Year 1 |
|-----------------------------|------------|------------|
| Match | 188 | 375 |
| Administration | 75 | 75 |
| Evaluation | 200 | 200 |
| Total (for 3 pilots) | 463 | 650 |

Benefits of the Saving Gateway are calculated on the basis of current estimates of the initial eligibility pool: approximately 2.5 million.

- Current estimates for the **administration cost** per year of each account is £75.
- Assuming an average account lifetime of 4 years, this equates to a total administrative cost of approximately £750 million.
- If the Saving Gateway pilots succeed in reducing these administrative costs by 2%, this would represent a **saving of approximately £15 million**.
- Further savings can be realised by **reducing fraud** within the Saving Gateway.
- The total theoretical liability of the Saving Gateway to fraud is £2.5 billion; in reality, design features such as small monthly limits on saving, and lack of access to contributions will limit the actual liability to levels at orders of magnitude below this theoretical level.
- If the Saving Gateway pilots are successful in reducing the actual level of fraud by 0.5% of this amount, then the total saving would be **approximately £12.5 million**.

These figures are assumed for a programme of three Saving Gateway pilots. The figures are presented pro-rata for options where less than three pilots are implemented.

Economic Appraisal

Four options are analysed.

Option 1 – The “Do nothing” Option

No ISB funding. CFLI continues with DfES funding only 3 pilots established. No Saving Gateway pilots. No benefits and NPV generated from this option.

Option 2

£600,000 ISB funding. CFLI pilots increased from 3 to 6.

| Option 2 | Year 0 | Year 1 | Year 2 | Year 3 | Year 4 |
|---------------------------------------|------------|-------------|-------------|---------------|---------------|
| 1. Costs (£000s) | 300 | 300 | 0 | 0 | 0 |
| 2. Benefits (£000s) | | | | | |
| General | | | | | |
| Employment Effects | 409 | 2,523 | 3,648 | 4,596 | 5,363 |
| Financial literacy | 54 | 245 | 299 | 0 | 0 |
| Utility Bills savings | 281 | 713 | 713 | 713 | 713 |
| SME employment | 270 | 964 | 983 | 1,003 | 1,022 |
| Total | 1014 | 4445 | 5643 | 6312 | 7098 |
| 3. Net Benefits (Benefits less Costs) | 714 | 4145 | 5643 | 6312 | 7098 |
| 4. Discount Factor | 1 | 0.94 | 0.89 | 0.84 | 0.79 |
| 5. Present Value (PV)(3 X 4) | 714 | 3896 | 5022 | 5302 | 5607 |
| 6. Cumulative (NPV) (£000) | 714 | 4610 | 9632 | 14,934 | 20,541 |

Option 3

£1.2m ISB funding. Saving Gateway piloted in two areas. CFLI pilots increased from 3 to 5.

| Option 3 | Year 0 | Year 1 | Year 2 | Year 3 | Year 4 | Year 9 |
|---------------------------------------|--------|--------------|--------------|--------------|---------------|---------------|
| 1. Costs (£000s) | | | | | | |
| CFLI pilots | 225 | 225 | 0 | 0 | 0 | 0 |
| SG pilots | 300 | 425 | 0 | 0 | 0 | 0 |
| 3. Benefits (£000s) | | | | | | |
| General | | | | | | |
| Employment Effects | 272 | 1,682 | 2,432 | 3,064 | 3,575 | 0 |
| Financial literacy | 36 | 163 | 200 | 0 | 0 | 0 |
| Utility Bills savings | 187 | 475 | 475 | 475 | 475 | 0 |
| SME employment | 180 | 643 | 655 | 669 | 682 | 0 |
| Saving Gateway | 0 | 0 | 0 | 0 | 0 | 18,000 |
| Total | 675 | 2,963 | 3,762 | 4,208 | 4,732 | 18,000 |
| 3. Net Benefits (Benefits less Costs) | 150 | 2,313 | 3,762 | 4,208 | 4,732 | 18,000 |
| 4. Discount Factor | 1 | 0.94 | 0.89 | 0.84 | 0.79 | 0.57 |
| 5. Present Value (NPV)(3 X 4) | 150 | 2,174 | 3,348 | 3,534 | 3,738 | 10,260 |
| 6. Cumulative (NPV) (£000) | | 2,324 | 5,672 | 9,206 | 12,944 | 23,204 |

Option 4

£1.5m ISB funding. Saving Gateway piloted in two areas. CFLI pilots increased from 3 to 5.

| Option 4 | Year 0 | Year 1 | Year 2 | Year 3 | Year 4 | Year 9 |
|---------------------------------------|--------|--------------|--------------|--------------|---------------|---------------|
| 1. Costs (£000s) | | | | | | |
| CFLI pilots | 225 | 225 | 0 | 0 | 0 | 0 |
| SG pilots | 463 | 650 | 0 | 0 | 0 | 0 |
| 4. Benefits (£000s) | | | | | | |
| General | | | | | | |
| Employment Effects | 272 | 1,682 | 2,432 | 3,064 | 3,575 | 0 |
| Financial literacy | 36 | 163 | 200 | 0 | 0 | 0 |
| Utility Bills savings | 187 | 475 | 475 | 475 | 475 | 0 |
| SME employment | 180 | 643 | 655 | 669 | 682 | 0 |
| Saving Gateway | 0 | 0 | 0 | 0 | 0 | 27,500 |
| Total | 675 | 2,963 | 3,762 | 4,208 | 4,732 | 27,500 |
| 3. Net Benefits (Benefits less Costs) | 13 | 2,088 | 3,762 | 4,208 | 4,732 | 27,500 |
| 4. Discount Factor | 1 | 0.94 | 0.89 | 0.84 | 0.79 | 0.57 |
| 5. Present Value (NPV)(3 X 4) | 13 | 1,963 | 3,348 | 3,534 | 3,738 | 15,675 |
| 6. Cumulative (NPV) (£000) | | 1,976 | 5,324 | 8,858 | 12,596 | 28,271 |