Responsible Finance 2019 Manifesto

The responsible finance industry works to promote prosperity and address inequality by empowering people to take control of their financial futures. Access to finance and financial exclusion are significant barriers to growth and long-term prosperity in local economies across the UK, at the individual, household, and business levels. Access to finance is access to opportunity, and consumers and businesses who struggle to borrow from mainstream lenders often struggle to climb out of disadvantage.

Responsible Finance Providers have a long and proven track record in providing access to credit to people and businesses that cannot access finance from mainstream providers, driving inclusive growth in the UK. Over the past 10 years, responsible finance providers have lent almost £2 billion to 410,000 businesses, social enterprises, and individuals. This has helped start-up new businesses, created and saved jobs, enabled social enterprises to deliver community services, provided an affordable alternative for families who use high-cost credit, and supported cash-poor homeowners to stay in their homes. Responsible finance providers directly contribute towards achieving the United Nations Sustainable Development Goals.

The responsible finance industry has a significant impact on its customers and communities. This is made possible by our model: local market knowledge and reach, putting the customer first and providing support alongside finance to open access to opportunity.

Over the last few years we have seen significant changes in the 'alternative' financial services market. The consolidation of high cost personal lending market and explosion of providers in the high cost business lending market, which remains unregulated, highlights the need for greater supply of responsible finance.

Responsible Finance calls on all political parties to support the growth of the responsible finance industry by endorsing the following commitments:

1. Ensure there is long term and sustainable funding for business lenders, social enterprise lenders and personal lenders.

This will ensure the sector has the capacity and capital to expand its reach and impact. A strong and capitalised responsible finance industry will build wealth, help move people out of poverty and reduce inequality of opportunity. We welcome the creation of Fair4All Finance, and will work with them to help scale the personal lending sector.

2. Update Community Investment Tax Relief to ensure it remains fit for purpose.

Tax reliefs and guarantee schemes are tools widely utilised by the responsible finance industry to leverage commercial investment, thus increasing our impact. These tools need to be kept competitive to maximise social and economic return. There are a number of technical adjustments that we hope we can work with the Government on.

3. Launch a tax relief for the personal lending sector to enable greater investment into responsible finance providers that are competing head on with high cost credit providers.

Community Investment Tax Relief (CITR) has proved effective at attracting investment into enterprise lending Community Development Finance Institutions. Personal lending by responsible finance providers does not currently qualify for access to CITR tax relief, therefore we propose extending the tax relief for use by the personal lending sector.

4. Replace access to European Union funding and facilities through the UK's new Shared Prosperity Fund.

It is vital that EU facilities which incentivise commercial investment into the responsible finance sector, namely EaSI, COSME and ERDF, are replaced in full by the UK's Shared Prosperity Fund.

The responsible finance industry at work

Business lending responsible finance providers

Responsible finance providers have a flexible approach in determining the viability of a business and a different risk appetite to banks which allows them to lend to business which are otherwise excluded. They transform communities through the creative use of finance, powering the engine of the UK economy.

Responsible finance business lending data has been mapped with bank SME lending data and geographies of deprivation in the Northern Powerhouse region (using responsible finance lending data, UK Finance’s bank lending data, and the 2015 English Indices of Multiple Deprivation). Figures 1 and 2 demonstrate that responsible finance loans are made in areas where there is less bank lending and higher levels of deprivation.

Figure 1

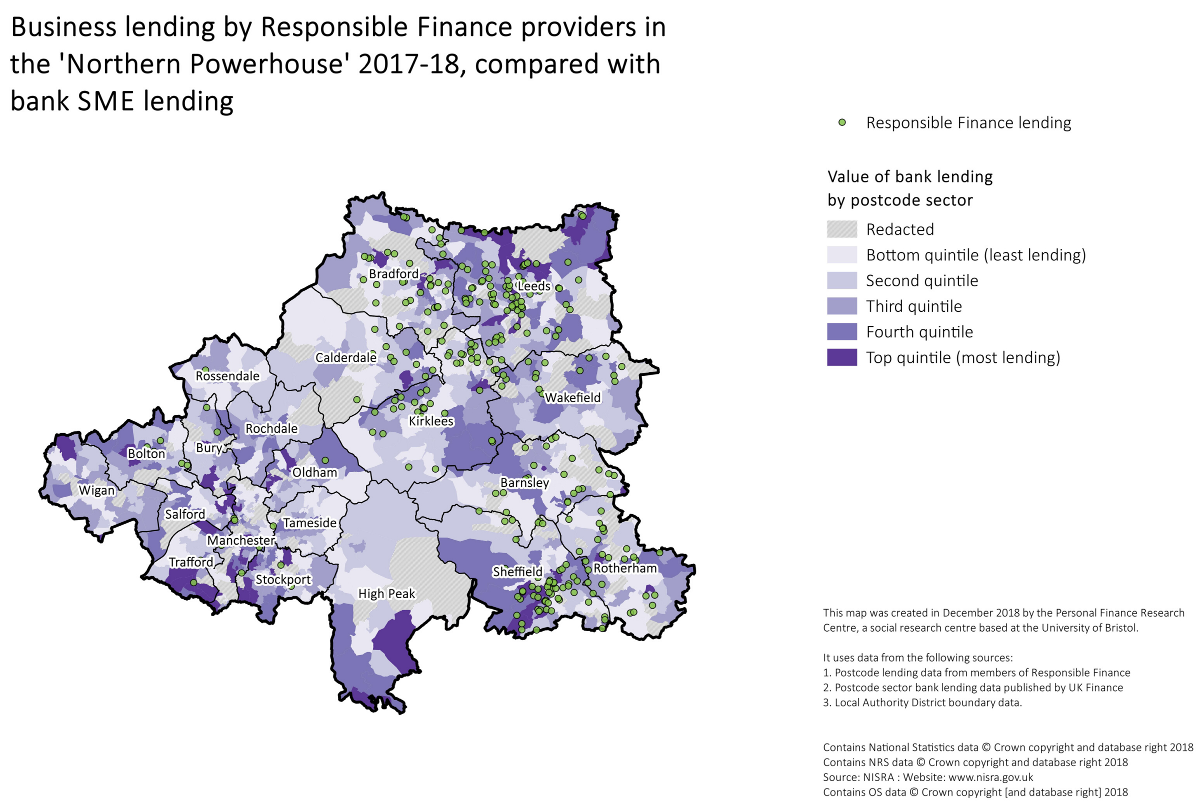
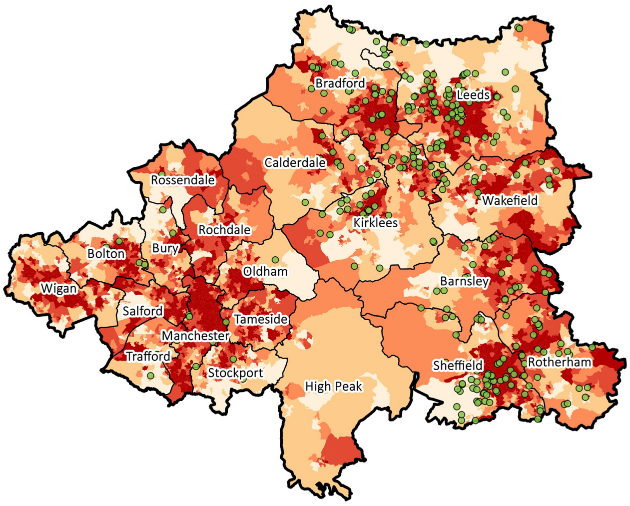


Figure 2

Business lending by Responsible Finance providers in the 'Northern Powerhouse', 2017-18, by deprivation



Responsible Finance lending

Indices of Multiple Deprivation (2015) at Lower-layer Super Output Area (LSOA) level

- Bottom quintile (most deprived)
- Second quintile
- Third quintile
- Fourth quintile
- Top quintile (least deprived)

This map was created in December 2018 by the Personal Finance Research Centre, a social research centre based at the University of Bristol.

It uses data from the following sources:
1. Postcode lending data from members of Responsible Finance
2. English indices of deprivation (2015) Ministry of Housing, Communities & Local Government.
3. Local Authority District boundary data.

Case study - outdoors store ascends to new heights

Alpkit began when four friends with a shared passion for exploring the Alps started making gear for themselves and the people they knew. They then progressed to selling directly to outdoor enthusiasts in 2004 as an online-only retailer.

Alpkit required major investment in their IT systems to support their growth, so they approached responsible finance provider Enterprise Loans East Midlands. After taking out the loan, they were able to increase their turnover significantly, grow staff numbers from 12 to 63, they scaled up their manufacturing and opened retail stores. Now every week the business’ employees make more than 1,500 products for climbers, hikers and bikers, earning a reputation for quality and affordability. Alpkit plans further shop openings alongside the creation of more jobs.

Social enterprise lending responsible finance providers

Social enterprises are essential to the UK economy. Responsible finance providers are a vital source of finance and support for the UK's innovative social enterprises that sit at the core of civil society, tackling social challenges. They reinvest their profits to create opportunities for communities and disadvantaged individuals.

Case study - tackling funeral poverty in Scotland

Funeral poverty, when the price of a funeral is beyond a person's ability to pay, is a rapidly growing issue across the UK. Caledonia Cremation is a social enterprise funeral business which addresses funeral poverty by providing low-cost direct cremations.

Caledonia Cremation offers direct cremations for a standard rate. They offer additional support to families who still find the cost a financial burden, and run 'death café' discussion groups, community conferences and a national advice helpline. The organisation approached Social Investment Scotland to help set-up capital expenditure and working capital. With backing and grants from others, Social Investment Scotland was able to support Caledonia Cremation in successfully commencing business operations and tackling funeral poverty.

Case study - employment boost for the ex-homeless

Connection Crew was set up in 2005 as an employment project of the homeless charity, Connection at St Martins. They provide manpower to the events industry, building stages and sets, installing lighting and sound facilities and moving heavy equipment. The social enterprise provides employment opportunities for individuals who have been homeless in the past, giving them work and helping them to develop purpose, confidence and independence.

Big Issue Invest provided two Regional Growth Fund loans for working capital that Connection Crew uses to either manage seasonal gaps in income or to fund weekly wage bills until the monthly invoicing from clients. It was also able to found a work space facility, which provides additional income to subsidise training and mentoring schemes for formerly homeless workers. Connection crew has grown its revenues from £300,000 a year in 2011 to £2.4 million in 2019, and provided 248 ex-homeless people with 136,017 hours of work. It has now launched an academy to support people to move back into employment.

Personal and home improvement lending responsible finance providers

Across the country there are pockets of poverty and deprivation. Responsible finance providers are lending to individuals in these areas who are unable to access other forms of affordable finance. Responsible finance personal lending data has been mapped with geographies of deprivation in the Manchester and Birmingham regions (using responsible finance lending data, UK Finance's bank lending data, and the 2015 English Indices of Multiple Deprivation). Figures 3 and 4 show that responsible finance lending is clustered in the most deprived areas of the Greater Manchester and West Midlands regions.

Figure 3

Personal lending by Responsible Finance providers in
Greater Manchester 2017-18, by local area deprivation

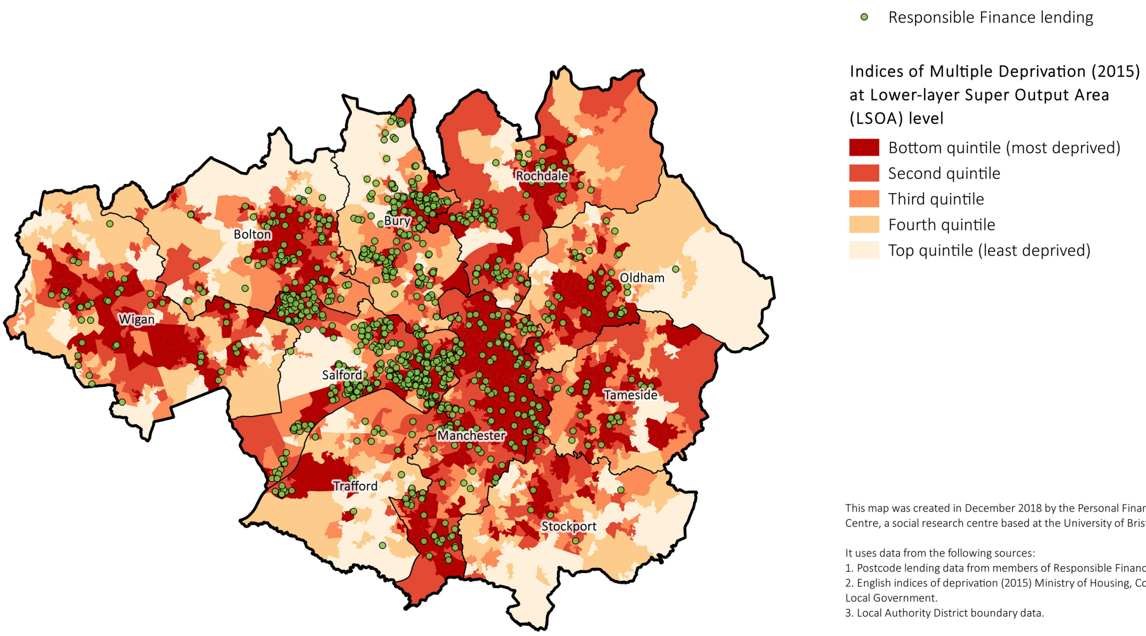


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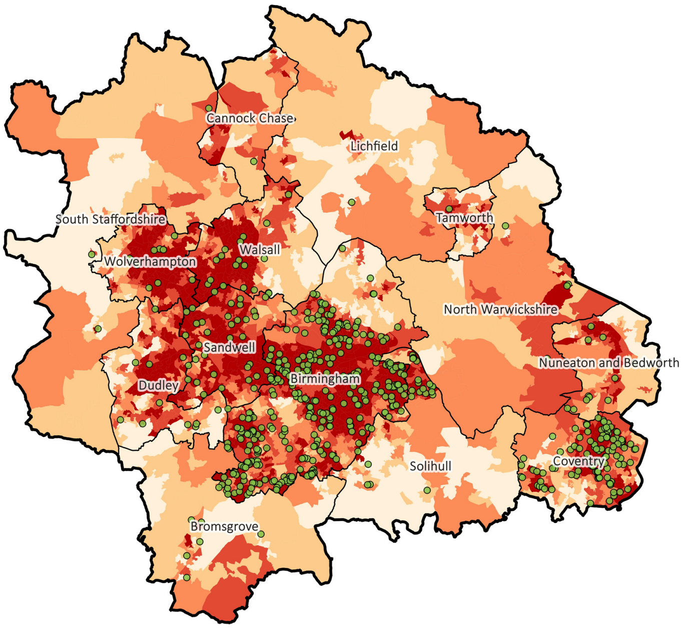
Figure 4

Personal lending by Responsible Finance providers in Birmingham 2017-18, by local area deprivation



- Responsible Finance lending

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Case study - an affordable alternative

Sophie approached responsible finance provider Lancashire Community Finance (LCF) after she had entered a contract with a well-known rent-to-own store for a new TV after hers broke down. The contract would have cost her over £1,825.20 over 3 years which she soon realised she could not afford to repay. LCF advised her to return the TV immediately as she was still in the cooling off period. They helped her find an equivalent television online from a retailer for £419, and lent her £400 with repayments over 78 weeks totalling £699.66, saving her £1,125.54.

To learn more about the impact of the responsible finance industry, read our 2018 annual industry report.