No-Interest Loan Scheme Pilot market engagement

Procurement, contracting, co-funding, pricing and delivery

28 September 2021

What is covered in this pack

- What is this all about
  - What, Why, How
- What are we seeking from you now?
- What's the proposed pilot structure?
- What is the customer need?
- What is needed from co-funders and referral partners?
- How are we procuring and contracting?
- Next steps
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What are we doing?

What are we doing?

What is it people need?

- Small amounts of credit, where people can afford to repay the capital, can be transformational
- Many people are declined for credit either due to affordability (which includes interest) or lending criteria (credit risk)

What's the potential solution we want to test?

Inspired by the Good Shepherd scheme in Australia, we want to test whether a No Interest Loan Scheme could be delivered in the UK and whether:

- There is a gap for such a scheme
- It creates positive impact for individuals and wider society/economy
- It can be delivered sustainably

What input do we need now?

- We're designing a pilot to test a No Interest Loan Scheme across six deprived areas in the UK
- We want input from potential providers, partners and co-funders to help us scope the pilot procurement and set it up for success

What next?

- We'll then go to formal procurement where we hope that providers, referral partners and co-funders will come together to submit bids to deliver the pilot
- We're setting up the procurement in anticipation of moving to scaled delivery – this will depend on evaluation of the pilot and further funding

What's the customer need?

Credit makes economies work and has a social purpose.

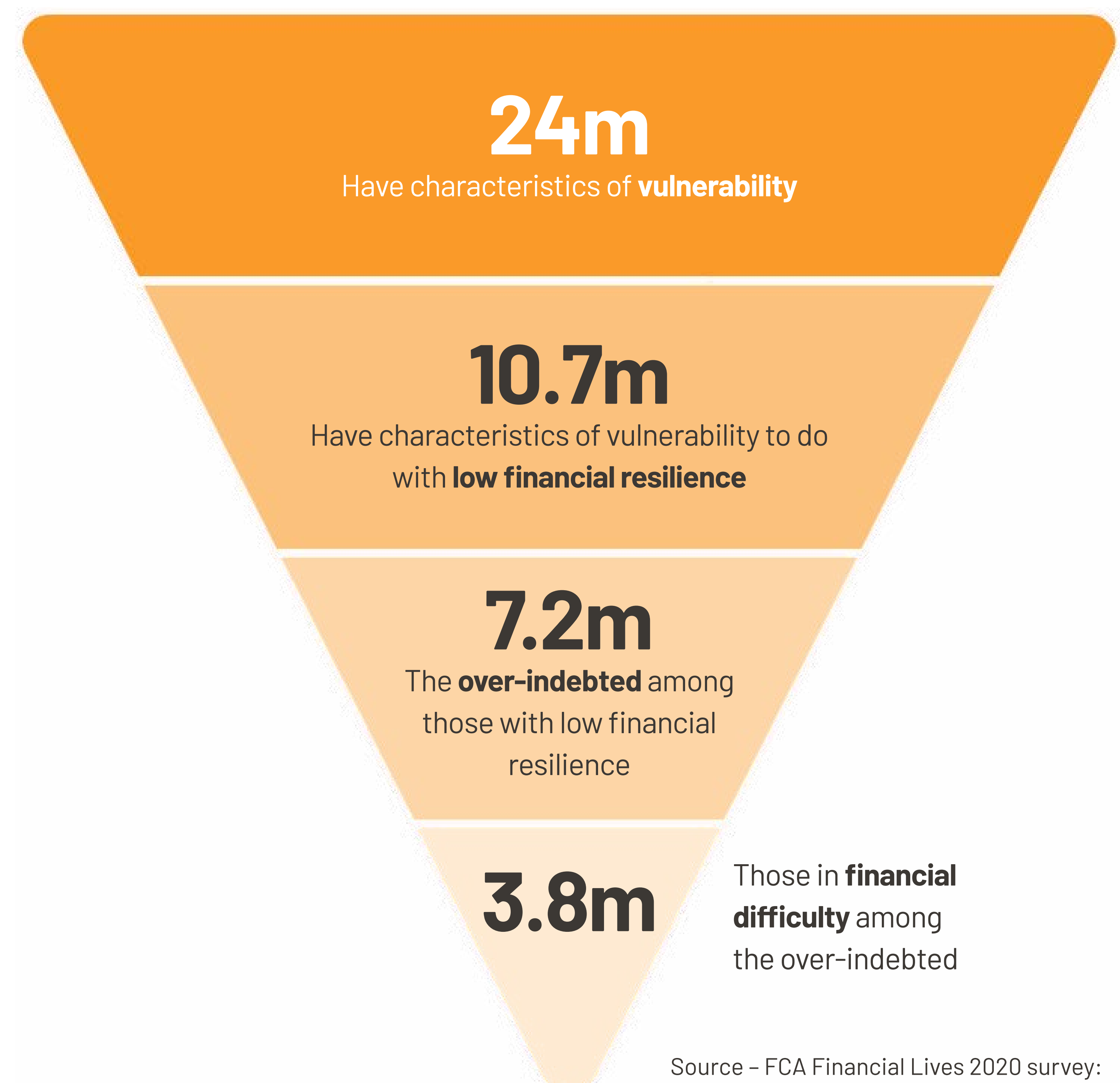
Sometimes, a small sum of money can make a very big difference in someone's life, particularly for the millions of adults who have characteristics of vulnerability.

For many of these people, disposable income or credit history (thin or poor files) will prevent a lender approving a loan. That refusal doesn't mean the borrowers' need disappears, sometimes it leads to poorer outcomes.

If a loan is appropriate, this could be a lifeline for customers. They might meet a lender's criteria if the interest element was removed – just repaying the principal borrowed. **A no interest loan could provide a valuable alternative source of money when credit is not typically available due to borrower's circumstances or affordability.**

We think that this loan can increase customers' financial wellbeing and help to alleviate poverty. We would like to work with local organisations who have a shared interest in these outcomes.

Adults in the UK



Source – FCA Financial Lives 2020 survey: the impact of Coronavirus

How did we get to this point?

2015 and 2017
Good Shepherd Microfinance visit UK to share their NILS experience with govt, financial services and civil society

August 2017
Toynbee Hall visit Good Shepherd to research the Australian NILS model for a possible UK pilot

August 2018
Toynbee Hall and StepChange develop initial pilot proposal for HMT

October 2018
Autumn Budget statement includes HMT commitment to carry out a feasibility study into a NILS

November 2018
HMT appoint London Economics to carry out feasibility study – with sector-wide engagement

August 2019
Feasibility study report delivered highlighting key questions to answer and/or test in a pilot

June 2020
Toynbee Hall, Fair By Design and Fair4All Finance form partnership to work with HMT to design a pilot ready to launch when circumstances allow

March 2021
HMT include provision for a NILS pilot in the March 2021 budget

Sept 2021
Fair4All Finance is appointed by HMT to run the pilot and announce partnership with Toynbee Hall and Fair By Design

Today

What is the context for this pilot?

- Fair4All Finance, Fair By Design and Toynbee Hall have been working with HM Treasury to develop a **No Interest Loans Scheme pilot**. This work follows significant engagement and research by London Economics and has also been informed by The Good Shepherd scheme which exists in Australia . We have also had a **roundtable workshop** with community finance providers and discussed our plans with organisations already working in this space

- HM Treasury have committed **£3.8m in funding** for the pilot and each devolved administration will provide up to £1m of lending capital, matched in England by Fair4All Finance

- **Fair4All Finance will act as the Central Delivery function, responsible for designing, co-ordinating and monitoring the scheme,** including procuring delivery partners and owning outcomes and overall scheme governance. Fair4All Finance is working in partnership with Fair By Design and Toynbee Hall, who will be responsible for the pilot product design and impact evaluation respectively

- We will work with credit unions, Community Development Finance Institutions (CDFIs) and other regulated lenders, who will be able to **apply to deliver and administer the loans**

- We'd like to encourage local councils, housing associations and charities to form **local partnerships with providers**, to refer into the scheme and provide co-funding to help increase the number of people the pilot can reach and test and **develop a sustainable longer term model** for such a scheme. These partnerships are key to the success of the scheme

What's the potential solution we want to test?

Reasons for loan
(must have a societal benefit)

- Essential items
- Rental deposit to prevent homelessness
- Unexpected expense (eg car repairs, dental bill)
- Education/ training
- Carer respite/mental health break
- Wellbeing reasons
- Other (must be trackable)

Customer eligibility

Affordability decline
(direct or referred)

Lending criteria decline
(direct or referred)

Core product

Loan paid directly to the customer (average £500)

+ option for lenders/funders to add additional products based on local demand

Customer referral routes

- Directly into lender (decline route)
- Charities
- Housing association
- Local authority
- DWP/Job Centre Plus
- Religious or community groups

Potential co-funders

- Housing associations
- Local investors supporting regional initiatives
- Corporate foundations
- Local authority

What needs to be true for success?

- Quick decision
- Swift dispersal
- Flexibility in repaying
- Dignity and agency in how loan is used
- Not increasing debt where grant would be better solution

- Appropriate compensation for costs of delivery
- Appropriate risk mitigation/funding for bad debt
- Build longer term relationship with borrower
- Funding for and integration with wrap-around support for borrowers
- Easily integrated into lending operation – cost effective delivery
- Supportive position from regulators in affordability assessments
- Slick referrals process with consistent information
- Positioned alongside commercial loan products

- Strong evidence of NILS wider outcome benefits (on borrowers directly and in wider societal and economic context)
- Value for money
- Targeting support at priority customer groups

- Easily understandable eligibility criteria
- Training for referring team members as to how and when to refer
- Good flow of information on progress/what's working
- Integration with customer journeys to enable frictionless referrals

What specifically do we want to test in the pilot?

The pilot design will include clear identification of metrics to enable quantitative collection of evidence and evaluation of what works at an operational and impact level to enable informed decisions on a final model for scaling.

Hypotheses

1. There is a demand for a NILS
2. The positive customer outcomes and social impact associated with a customer having access to NILS versus no loan, a high-cost loan or going without, outweigh the costs of the scheme
3. This is a way to build a sustainable, permanent solution

Objectives

1. Demonstrate whether there is demand for NILS and the propensity of borrowers to repay
2. Identify and evidence impacts on borrowers who access NILS to evaluate whether there are positive customer outcomes and wider fiscal and societal benefits attributable to the scheme
3. Assess the long term sustainably of delivering a permanent UK NILS by determining the cost of the scheme and therefore the support required to make the scheme sustainable

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How will we evaluate the pilot?

We will conduct both a process and impact evaluation, which we will be designing with an independent academic evaluation partner (to be appointed through a competitive tender process this autumn). We welcome suggestions on what learning lender and referral/co-funder partners would find useful.

Impact evaluation

- What impact – if any – does access to a NILS product have on financial wellbeing and resilience for low income households currently excluded from access to affordable credit?
- Is there a wider societal benefit generated by providing access to a NILS product eg changes in employability and economic activity, income, physical and mental health, and ability to engage in society?

Process evaluation

- What is/isn't working during the pilot and how can we correct weaknesses as quickly as possible?
- What stops borrowers and potential borrowers from participating – at all or successfully – and how can we remove those barriers and increase success?
- What are the necessary conditions for organisational stakeholders (eg lenders, referral partners and funders) to participate at scale?

Data: We will use a proprietary platform developed by Toynbee Hall to capture borrower wellbeing and inclusion data in parallel to data recorded in lenders' systems. This will give us a rich understanding of borrower behaviour and trends. We will also need extracts of data from lenders' systems to enable the evaluation.

What's the draft evaluation framework?

Impact measurement will enable us to test the first element of our hypothesis

	Outcomes	Measurement
Individual/ household	• Improved financial wellbeing • Cost savings due to not having to borrow from a higher-cost lender • Improved living conditions due improved quality, cost or security of housing • Psychological wellbeing, including lower stress levels, and physical wellbeing • Reduced cost of alternative spend (eg a loan to buy a car to save on transport costs)	**The ongoing process and impact evaluation will assess data on the sustainability of a NILS and qualitative and quantitative evidence for and against the impact of the pilot.** **Data will be collected through a combination of interviews, focus groups, survey data, lender data, and relevant secondary data sets. Some data will be captured through our proprietary platforms.**
Lender	• The conversion of NILS customers to longer-term borrowers and savers • Improved awareness of the provider and affordable credit	
Socio-economic	• Opportunity cost of not lending, including reduction in debt advice costs, eviction costs, unemployment costs and other support costs • Increased community safety (as a NILS is an alternative to illegal money lending) • Improved green consumption through ability to afford greener products	

What's our approach to the pilot?

Webinars and market engagement

Refine pilot parameters and assumptions

Procure NILS pilot

Pilot NILS

Iterate product as we go through the pilot

Build case for long term and ongoing implementation of NILS

Learn from NILS proof of concept which is already up and running

Up to five year extension options for successful bidders and potential to pilot other products within same contract

Appointed providers must have an asset lock and mission lock in place to align with Fair4All Finance strategic priorities

Budget envelope is large: £0.35m for one lot to tens of millions across all lots depending on feedback from this market engagement

How we pilot products

NILS

- We're embarking on this market engagement today to seek input on our NILS which we'll use to refine the pilot parameters
- Procuring a NILS pilot in six locations across four nations which will involve lending across two years with a set up and an evaluation period
- The pilot will operate from 2022 and during the pilot process we will:
  - Gather evidence of what works and refine the product and processes to drive down costs to deliver
  - Work to secure funding so that NILS can continue on a sustained basis beyond the pilot without a hiatus
  - Extend the NILS agreements for up to a further five years, subject to funding, beyond the pilot stage at a higher budget envelope but on a leaner per loan basis

Other pilots

- We recognise that procurement is time consuming and we have a range of related product pilots to commence. We are procuring the NILS lenders with a view to also extending these contracts, by mutual agreement, to test other relevant products.

We are procuring contracts for single or multiple locations which may cover NILS alone, or be extended to test other products. For these reasons the budget envelope is large: from £0.35m for one lot to tens of millions across all lots depending on feedback from this market engagement

What input are we seeking from you now?

Who the market engagement is for

NILS will only work with the support and delivery capability of existing local agencies. We are seeking lenders to deliver the scheme, along with customer referrals and co-funding from local agencies, charities and foundations.

Lenders

Lenders such as community finance providers interested in taking part in the pilot and seeking more information about the design and implementation

Referral partners

Local agencies such as housing associations or local authorities that can identify and refer potential NILS applicants who might benefit from a loan.

Referrals may also come from other partners where appropriate credit broking arrangements are in place, or where an exemption applies

Funders

Charities, foundations and other interested parties including housing associations, local authorities and potential future funders.

We're seeking co-funding alongside central funding to put a funding structure in place which can deliver a long-term NILS scheme

What do we want your input on?

Gather feedback on our assumptions

Before we start procuring partners to deliver the NILS pilot we're engaging the market to gather feedback on the scheme design and assumptions.

The purpose of this pack is to provide detail on the areas for feedback including on the current product design, customer journey, evaluation, procurement pricing model, bid assessment and contracting approach.

At the end of each section we've included related questions, which we would appreciate your thoughts on. You can submit answers to the questions here

Match interested local partners

This market engagement process may also enable the NILS project team to match prospective lenders and potential referral partners to enable collaborative bids in the procurement.

Testing our assumptions – questions for you

The assumptions we are looking for feedback on as part of the market engagement include:

Pilot structure

Approach to procuring the pilot locations as lots so that bidders can select which delivery locations to focus on

Customer need

Customer need and eligibility assumptions along with referral routes and loan parameters to make sure these are attractive and compelling to lenders and co-funders (these will also be informed by the proof of concept we are running in parallel to prepare for the pilot procurement)

Co-funding and referral partners

The scale of lending and co-funding required

Assumptions about what proof points that lenders and co-funders want the pilot and lived experience workshops to demonstrate in order to enable ongoing sustained delivery beyond the pilot period

Procurement and contracting

Draft pricing model to compensate lenders and their partners for delivering the pilot including implementation, per loan delivery and management costs

Draft contract to appoint lenders and their partners to deliver the pilot

We are also interested in any wider feedback that you might have on other aspects of the proposed scheme.

The specific aspects that we would really appreciate your feedback on are listed at the end of each section of this pack. You can submit your responses to the questions here

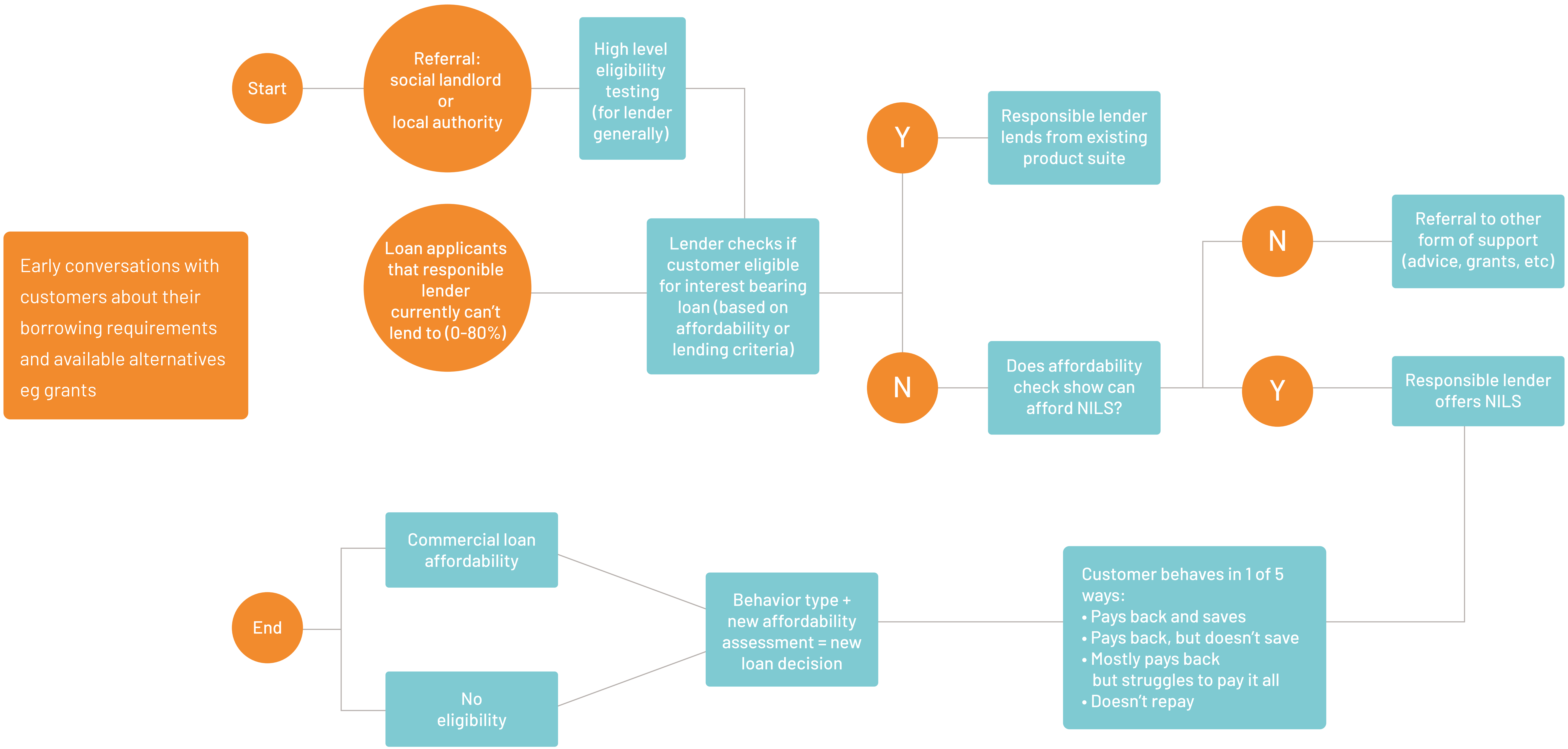
Asset and **mission** lock

To **submit a bid to deliver** this pilot organisations will need to align to the Fair4All Finance purpose and demonstrate their focus on our target customer group

A key pass/fail test during the procurement process will be assessing the asset lock and mission lock of participating organisations **– making sure that profits are reinvested to benefit customers in need**

What is the customer need?

Proposed NILS pilot customer journey



Who will be eligible for NILS?

Initial draft eligibility criteria which may evolve during the Proof of Concept and Pilot

We recognise that local calibration will be necessary to reflect the alternative support in specific locations

Customer eligibility

Affordability decline

(direct or referred)

- Someone who falls below affordability criteria for the lender's existing product range
- The need cannot likely be met at all/in full/in time by any grant/bursary/other available statutory payment
- Can successfully repay existing or new debt and has a positive budget to repay capital but not interest

Lending criteria decline

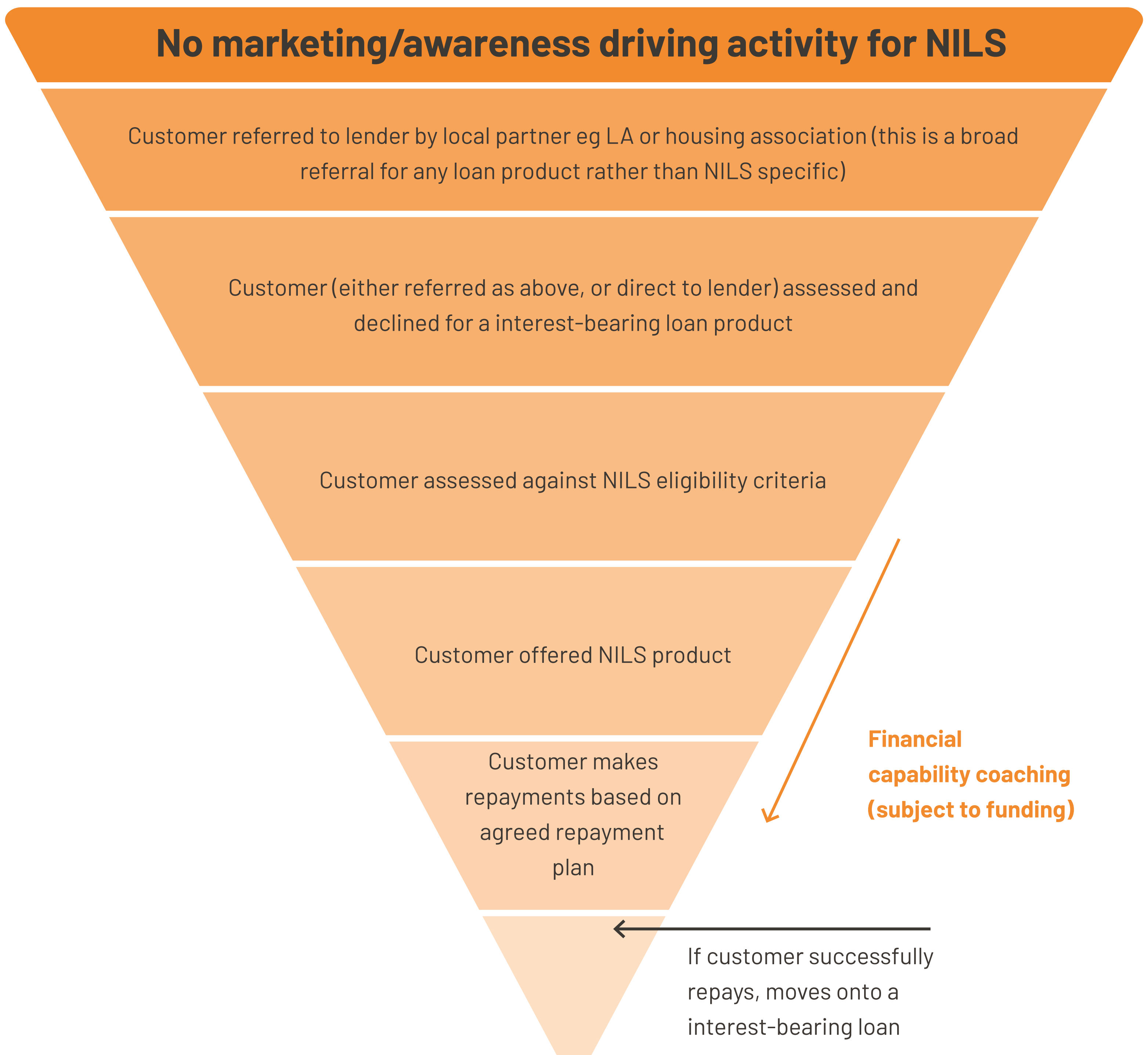
(direct or referred)

- Fails a credit check but where the lender's understanding of the borrower's circumstances suggest this is not an ongoing issue
- Has poor repayment history due to factors outside the borrower's control, rather than unwillingness to repay.

How will affordability be assessed?

- Affordability is still vital in the decision to lend responsibly
- We expect affordability to be assessed in line with lenders' existing good practice and the Fair4All Finance Affordable Credit Code of Good Practice
- We expect a thorough income and expenditure assessment using rich data and insight including open banking and credit reference checks at an appropriate point in the customer journey
- In our product design for NILS we are considering the importance of payment flexibility, delayed commencement of paying and payment holidays; all of which may have a bearing on how affordability is assessed
- Some of the issues around affordability are inseparable from the risk profile, loan principal and term. We are also considering having a separate lot where the borrower's circumstances and history may necessitate a CDFI delivered loan, where the interest reflects that risk, and where avoiding that interest makes a more significant difference to the affordability of the loan

Customer journey funnel by stage



- Current design excludes any specific NILS marketing activity in part to reduce likelihood of fraud – our assumption is that the referral/declines pathway will generate sufficient demand
- Lenders and referral partners will agree referral process/criteria to ensure the right customers are referred in; referrals will be into the lender generally rather than specifically for the NILS product
- Customers will then go through the lender's normal application process. A NILS loan should not be offered to customers eligible for one of the lender's existing interest-bearing loan products
- Subject to additional funding, we will also look to test whether financial coaching could move targeted customers from risk of default to successful repayment of a NILS loan, and potentially also improve their access to market-based affordable credit

Example use cases – not exhaustive

Customer scenarios	Reason for loan	Societal benefits	User benefit
Victim of domestic abuse trying to get a property – eligibility (address history) Move to bigger private rental to reflect growing family – affordability (low income)	Rental deposit	• Avoid homelessness (reduced costs to local authority) • In turn reduced crime and strain on local services	• Secure housing – mental health • Family wellbeing • Proximity to work/education /community
Self employed bar owner looking to retrain after the pandemic led to closure – eligibility Single mum looking to return to work once children in full time school - affordability	Education/training	• Increased skills • Economic benefit • Reduced unemployment	• Increase earnings and financial resilience
Someone already in debt experiences a death in the family, with no way of paying for the funeral - eligibility Someone needs a roof repair and has no savings and low income- affordability	Unexpected or annual bill	• Avoid homelessness if bill is substantial and prevents housing costs being paid	• Varies depending on bill but could include; • Mental health – stay in home • Family wellbeing • Access to otherwise excluded services
A single mum who relies on benefits' fridge/freezer breaks, and she has no savings The sole earner in a family needs the car to get to work, but it needs expensive repairs	Essential items (appliances, transportation)	• Some reasons may continue to create economic benefit, or reduce the need for other local support	• Reduced ongoing costs (launderettes, increased food costs, taxis etc) • Building financial resilience due to lower cost than HCSTC
For any low income family, new school uniforms and supplies (especially if moving schools) can be a high cost (£100) with limited support	School uniforms	• Education of children maintained (inc reduced cost of absenteeism) • Increased education output	• Avoid absenteeism – family benefit • Mental wellbeing – not sending children to school unequipped

Example use cases – not exhaustive

Customer scenarios	Reason for loan	Societal benefits	User benefit
A nurse has worked throughout the pandemic, but also has had increased living costs, and can't afford to take her young children on holiday - affordability Asylum seekers who recently settled haven't left their small flat in 18 months – eligibility (address/citizenship)	Carer respite or mental health break	• Increased wellbeing of individual reduces absenteeism at work as well as strain on NHS/mental health due to burnout and stress	• Mental health and family wellbeing
Single mum has been invited to a family wedding, and needs to buy outfits to attend	Other wellbeing need	• Individual has closer family ties which means support more available in future (reducing other strain)	• Mental health and sense of pride • Participate in society and community
A parent who recently lost their job and has been using savings as a main source of income doesn't know how to pay for Christmas gifts – it's their first year in this position and they think they might have to borrow money from family	Other wellbeing need	• Will be specific to the need, but likely to be on customer wellbeing and the wider impacts on their ability to live and work	• Mental health of individual – providing for family • Building financial resilience due to lower cost than HCSTC
A woman's husband passed away two years ago, and he was the sole earner. She has been taking out loans/not paying bills to get by, and is now unable to access help	Consolidation loan	• More customers able to repay more debt – reducing debt overall	• Improved credit score as paying down debts • Strengthening financial position

Example persona: Louise - single mum with a stable low income

Louise is 30 and lives in Denton in Manchester with her two sons, aged 7 and 4. Her income is solely from benefits including Universal Credit.

The children's father sends additional income occasionally, but not consistently, due to his flexible working patterns and spending behaviour. Louise can't rely on his income.

Louise lives in a two-bedroom house from a social housing provider, and worries about the space the boys will need when they're older. The house is always full of stuff, and she struggles to keep on top of everything. She'd describe her life as hectic and constantly busy, but full of love. She wants the best for her boys and finds it hard to see them go without.

Louise shops at Aldi and knows what to buy each week to maximise what she gets for her budget. When schools were closed and her ex-partner didn't send any money for several months, she used a food bank a couple of times, but felt ashamed for doing so.

In 2019, Louise's washing machine broke. She washed clothes at her mum's house for a few weeks while she tried to get a loan, eventually using a high-cost credit provider. The high cost meant she missed some payments which affected her credit score and made her nervous about getting loans again.

She has a small friendship circle of other single mums who help each other out with childcare and with transport when necessary.

Louise would be eligible for NILS due to her low income, lack of stability of payments from her likely former partner, and previous missed payments affecting credit score

- 4.5m people have an income of less than £17k or are on benefits
- They can cover essential items and day to day living costs and have great budgeting skills because of their need to make ends meet
- However, any one-off or higher cost items are a struggle, including school uniforms, birthdays and holidays, and additional food costs in school holidays
- As a large chunk of income comes from benefits, many had stable incomes during the pandemic, but higher utility and food bills have increased their need for credit
- Many have benefitted from the £20 universal credit uplift, and the removal of this will impact their finances and means something will have to be cut from their expenditure

Example persona: Rohaan - financially precarious

Rohaan is 36 and lives in Glasgow with his wife Ayesha and their three children aged 12, 11 and 7. He moved to the UK when he was a child. Until 2019, Rohaan had worked for a logistics company as a warehouse freight handler earning £26k a year, and Ayesha worked part time as a receptionist at a doctors surgery.

Rohaan was made redundant, and became a self-employed minibus and taxi driver so he could work more flexible hours.

When the pandemic began, Rohaan hadn't been self-employed long enough to access any support and he was out of work for four months – his income still hasn't recovered properly. The couple's small pot of savings, which they'd been putting towards a new kitchen, had to be used a source of income and is almost completely gone.

Rohaan has done odd jobs for people locally but not enough to make ends meet.

The family have a mortgage on their three-bedroom house and are struggling to keep up the payments. The mortgage holiday was helpful but they are worried about their future finances.

Rohaan is also worried about his mum who lives an hour away – his dad passed away from Coronavirus, and his mum may need additional care now she's alone.

The couple have already maxed out one credit card with another close to its limit to fund bigger purchases and to buy things for Rohaan's mum. They haven't been in such a challenging financial situation before and aren't sure where to turn to for help.

Rohaan would likely be eligible for NILS due to current low to no income (Ayesha's income only) and because of the levels of debt on credit cards

- 4m people are in a precarious situation with rapidly depleting savings. They may not be in debt yet, but they don't have good affordability for credit
- They may have short term problem debt which needs addressing
- Being in a financially challenged situation is new to them, and many will have had to make choices that feel hard for them such as reducing spend on birthdays and christmas, changing the supermarket they use, and having to prioritise which bills get paid
- This has led to significant mental and wellbeing challenges, as people who were previously getting by now feel overwhelmed and at risk, and don't know where to turn. Some may even fear losing their house
- Pakistani, Bangladeshi, Black-African and Black-Caribbean households most likely to be affected by Covid-19 job losses

Example persona: Yanka – volatile income

Yanka has been working in hospitality for many years. She usually took evening and weekend shifts when her husband could be home to look after the children. Her wages topped up their main household income.

During the pandemic she was eligible for furlough, but this did not take into account her share of tips top of her wages. This meant that her furlough wages were even less cover for her real pre covid wages than most other employees on a similar income.

Yanka and Bogdan live in inner city London in a 2 bed council flat. They really want to get their two children (6 and 11) out of the city for at least a week during the summer. Snezanka (6) has asthma and they would like to move out of central London ideally to help with her health but can't even consider this due to the uncertainty about work.

Like lots of low income families Yanka and Bogdan found that their living expenses went up during the pandemic. Even now they have returned to work, staff at her workplace have been asked to self-isolate several times. The self isolation grant helps but it's making her very anxious. When Bogdan has reduced work before Yanka has been able to take extra shifts at the café, but the café has had to close twice since lockdown ended and she's not confident that she will have that option again. Bogdan and Yanka would like to take out a small loan to enable them to take a holiday.

Hospitality is now considered a high risk sector so Yanka cannot use her income to secure a loan. Bogdan is a building contractor on a zero hours contract and doesn't have reliable wages, so loan applications are declined.

- Over one-third of the lowest income families with children have been 'squeezed' as their incomes have fallen by more than their spending
- "For me I have definitely been spending more. Being in the house 24 hours a day with the family. Eating meals that wouldn't usually be eaten at home. I have spent every penny of savings that I had not that it was much. Where my nephew has been able to get his garden done with artificial grass and bought a hot tub with what he has saved. It's been so different for every family." www.resolutionfoundation.org/app/uploads/2021/01/Pandemic-pressures.pdf
- As self-isolation requirements continue, many bars and restaurants have been forced to close due to a lack of staff, making these precarious incomes even more volatile

Financial capability coaching

- Subject to securing additional funding, we will test whether financial coaching could move targeted customers from risk of default to successful repayment of a NILS loan, and potentially also improve their access to market-based affordable credit

- Specialist financial wellbeing coaches, trained and supported by Toynbee Hall, would work in pilot areas to support selected NILS customers to improve their money management knowledge, confidence and skills. The financial coaching would be provided to a subset of NILS customers to assess the difference in outcomes between providing just a NILS loan vs a NILS loan with additional financial skills support

- We will select customers who might benefit from either:
  - Support to manage their outgoings and budget over the lifetime of the NILS loan in order to manage successful repayments (eg reducing outgoings to enable NILS repayments are made without incurring hardship, and/or building financial resilience through making savings, building savings or accessing other forms of support to avoid using high cost credit)

    and/or
  - Support to build their credit file to improve their access to more affordable credit on repayment of the NILS loan (eg registering for the electoral role, understanding and managing previous credit data, understanding how to calculate credit costs and creditor information, etc)

- We will collect key financial indicator data during each customer's assessment process. Where that data indicates potential risk (eg previous missed repayments; little experience of repaying credit; very tight margin in budget; low levels of financial literacy) we would consider offering the customer additional money coaching support. NB not all risk flagged customers will receive the additional support; we want to test the extent to which additional support is a cost effective tool in increasing NILS repayment rates

Your input: customer journey questions

- What do you like/agree with about the customer journey routes?
- Would these customer journey routes work in your delivery operation? Comment further on why
- How would you plan to bring together a collaboration between a lender, co-funder(s) and local referral partners into a compelling bid?
- Would you be able to deliver a no-interest loan under your own brand, or under a separate brand which you would develop to differentiate it from your normal loan offering?

Please submit your answers to these questions here

Your input: NILS Product design questions

Customer use cases

- Are there any questions raised from the proposed solution on page 8, or the example case studies on pages 25 to 29?

Product design considerations

- Would you expect a no-interest loan to require different terms to your standard loans, other than the interest rate?
- We are considering the importance of payment flexibility, such as repayments not starting until three months after the loan has been taken and payment holidays built into the terms and conditions. These ideas are not set in stone and we would appreciate input into how this could work in terms of customer needs, your systems, affordability criteria and any other barriers to delivery.

Please share your comments on these considerations with us.

- In addition to a no interest loan, what additional services/ products would you expect customers to receive alongside the loan to maximise good customer outcomes?
- What other products do you feel are needed for this customer group (noting the pilot contracts can be extended in scope to test other unrelated products)?
- Our theory is that following a no-interest loan, a customer's next loan is likely to be a standard (interest-bearing) loan as they are in a stronger financial position, would you agree with this?

Regulatory considerations

- Are there any risk or regulatory concerns that will be difficult to overcome in this pilot?

Please submit your answers to these questions here

What is needed from co-funders and referral partners?

Summary of the proposed pilot scheme

- The pilot will be place based with loans of an average of £500 (and a range of between £100-£2,000) delivered to people in up to six areas of high deprivation across England, Northern Ireland, Scotland and Wales
- The NILS will be specifically aimed at customers who cannot access any existing form of mainstream or affordable credit, but who can afford to repay a small capital sum, and who need to spread the cost of essential or emergency expenditure
- Regulated lenders such as CDFIs and credit unions will be commissioned by Fair4All Finance through a procurement process in November 2021 following the market engagement
- Lenders will be responsible for individual lending decisions and will conduct eligibility assessments on customers either who have been referred to them or customers that they would have otherwise had to decline based on affordability or other lending criteria (NILS are intended to be complementary to interest-bearing community finance loans)
- The pilot will test several variables, including loan amounts, repayment periods and terms, and determine repayment rates. Impact and process evaluation will be ongoing, feeding iterative improvements to the loan process including eligibility, and evaluation activities will conclude at least a year after the completion of the pilot (2025) to enable the commercial lifetime value of the customer to be evidenced

Pilot **delivery structure**

Central delivery function

Fair4All Finance: Overall accountability, ownership and coordination including lender procurement, scheme monitoring, outcomes and governance

Central delivery function consortium: Fair4All Finance is working in partnership with Fair By Design and Toynbee Hall, who are responsible for the pilot product design and impact evaluation respectively

In place delivery

Local Agency

Customer referral from a local agency, eg local council or housing association

Community Lender

No-interest loan fulfilment from a community lender

Community Lender

Customer repayment on a flexible basis

Community Lender

Long-term customer relationship

Wales

Scotland

Northern Ireland

England

England

England

Co-funders and referral partners

- We are encouraging procurement bids from partner consortiums – where the lender will be the lead bidder, and will bid alongside a referral partner who may also contribute funding to the scheme along with others
- A bid could have each element of lending delivery, customer referrals and co-funding
- This approach is necessary to ensure
  - Local buy-in
  - Dovetailed referrals and integration with local offerings
  - Sustainable funding models for the long term

Local integration, co-funders and referral partners

- The most compelling bids will feature strong co-funding of local provision and ideally commitments to longer term roll out if the pilot is successful
- We have set out 10% of the marking criteria to assess the bidders response in terms of alignment with customer base, complementary local offers, referral partners, vision, wrap around services
- This is an important section for us to understand how an integrated bid from lenders is coming forward which demonstrates:
  - Local understanding of relevant complementary support eg grants provided through devolved administration and the means by which borrowers will be referred to the right solution for them, which may not be a NILS loan; we are working with Devolved Administrations to ensure we have a comprehensive understanding of the local provision and a means of scoring this section appropriately
  - A strength in partnership between lender and collaboration partners be they co-funders or referral partners who will support the right outcome for the borrowers this could be demonstrated through commitments to train people expected to provide referrals to NILS, as well as cash and in-kind contributions
  - How the lender's existing support for borrowers in providing wrap around services eg referrals to debt advice etc will be provided
- We have also included the co-funding contributions for the immediate pilot in our pilot cost assessment (within 30% pricing assessment) and future co-funding commitments to demonstrate long term traction for NILS (separate 20%)

Understanding the local context and needs

- One of the NILS tender criteria which proposals will be assessed against (see slide 63) will be the extent to which the bidder demonstrates an understanding of the local context, needs and existing offerings
- Each devolved administration (and the local pilot areas within those nations) has its own ecosystem, which providers' proposals must align to

More detail in Appendix 2

England

- Local Welfare Assistance Schemes in 6 out of 7 councils
- Trust and specialist foundation schemes and individual RSL hardship funds
- Budgeting loan advances (no interest) reclaimed from legacy benefits

Northern Ireland

Emergency financial support is available for people on a low income. This includes:

- Discretionary Support – loans and grants for people in a crisis situation
- Universal Credit Contingency Fund – grant available to new UC claimants
- Social Fund

Scotland

Existing grant schemes and loan funds to be considered include:

- The Scottish Welfare Fund - comprising of Crisis Grants and Community Care Grants)
- The Tenant Hardship Loan fund
- Discretionary Housing Payments

Wales

Existing grant schemes to be considered include:

- The Discretionary Assistance Fund – providing emergency payments and household items
- The Tenant Hardship Grant

What could referral partners look like?

- We believe that for many NILS borrowers an affordable loan will only be one ingredient in a wider package of support they need to improve their financial resilience
- NILS borrowers may therefore have already come to the attention of other organisations who see a NILS loan as a useful complement to their own support
- We expect referral partners may be:
  - Housing Associations
  - Local Authorities
  - Other agencies where credit broking arrangements or exemptions are in place
- Exemptions from the need for FCA credit broking authorisation for social landlords and local authorities will help these organisations make direct referrals to community finance providers

What are the benefits for co-funders?

NILS can be a valuable part of local infrastructure, providing a solution along with other credit options and welfare services to ensure that customers have a good level of financial wellbeing. Inherently, NILS is expensive to deliver because the customer interest which usually covers cost has to be subsidised.

We would like to collaborate with funders who see NILS as relevant because of:

- Value for money - Those who would get a positive return on investment locally through supporting customers through a NILS programme – for example housing associations and local authorities
- Poverty alleviation and community building - Those who have philanthropic interests in helping people to avoid the trappings of poverty, and those who are interested in strengthening local community networks
- Organisations who have a wider interest in innovation in financial services provision and integrated solutions to financial resilience

Outcomes questions

- What are your reflections on our assumptions about why of co-funders may contribute to NILS?
- For housing associations, local authorities and philanthropic organisations – what else, as a potential funder, would you need to know to decide to fund NILS?
- Do you agree that the outcomes we are seeking to measure in the draft evaluation framework (slide 12) are the appropriate things to be reviewing? What other aspects would you be interested in evidencing?
- To enable those outcomes to be assessed we will want to capture data during and after the pilot to include where lenders have converted a NILS borrower into a customer for other (savings and loan) products. Do you have any comments on this?

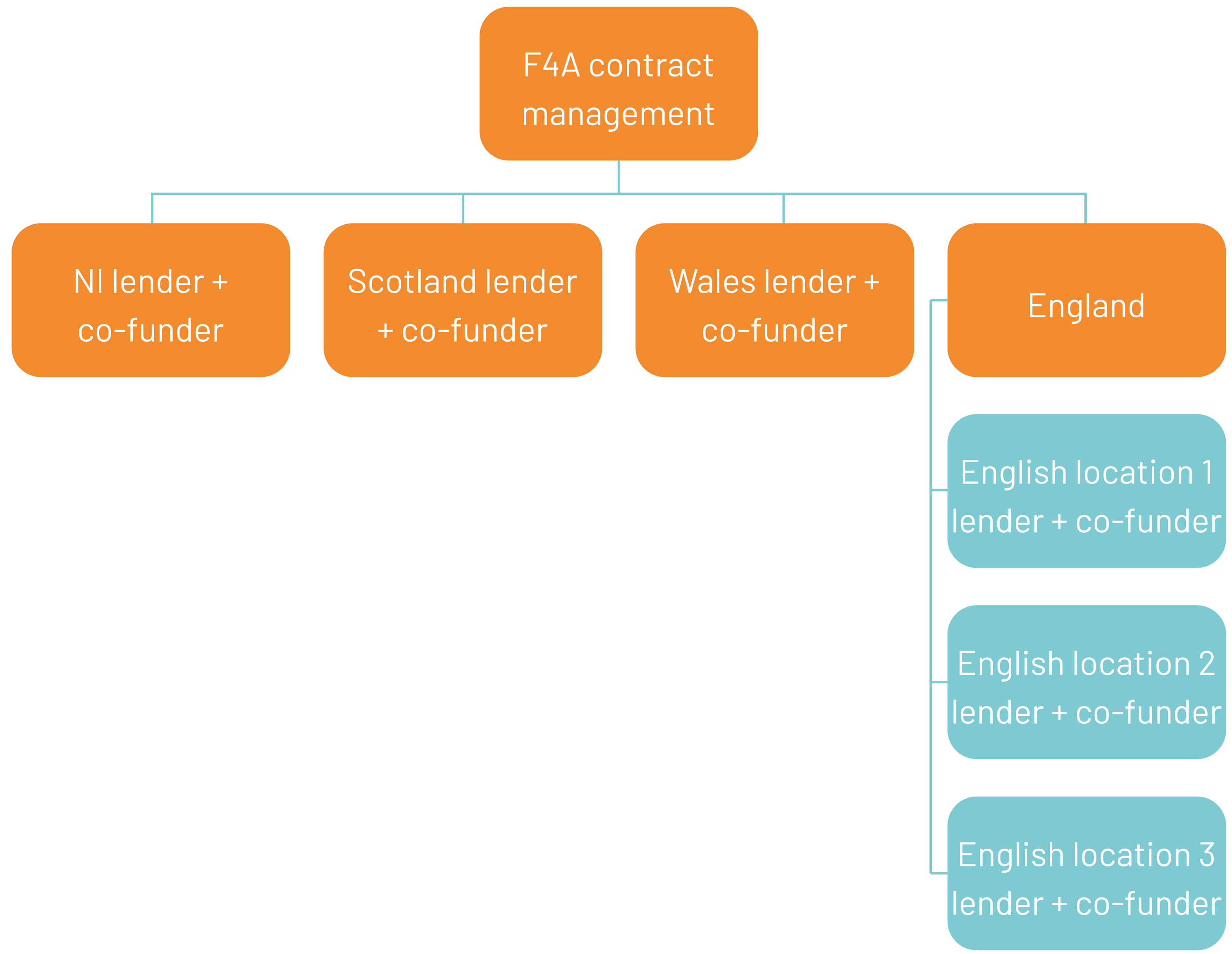
Please submit your answers to these questions here

What's the proposed pilot structure?

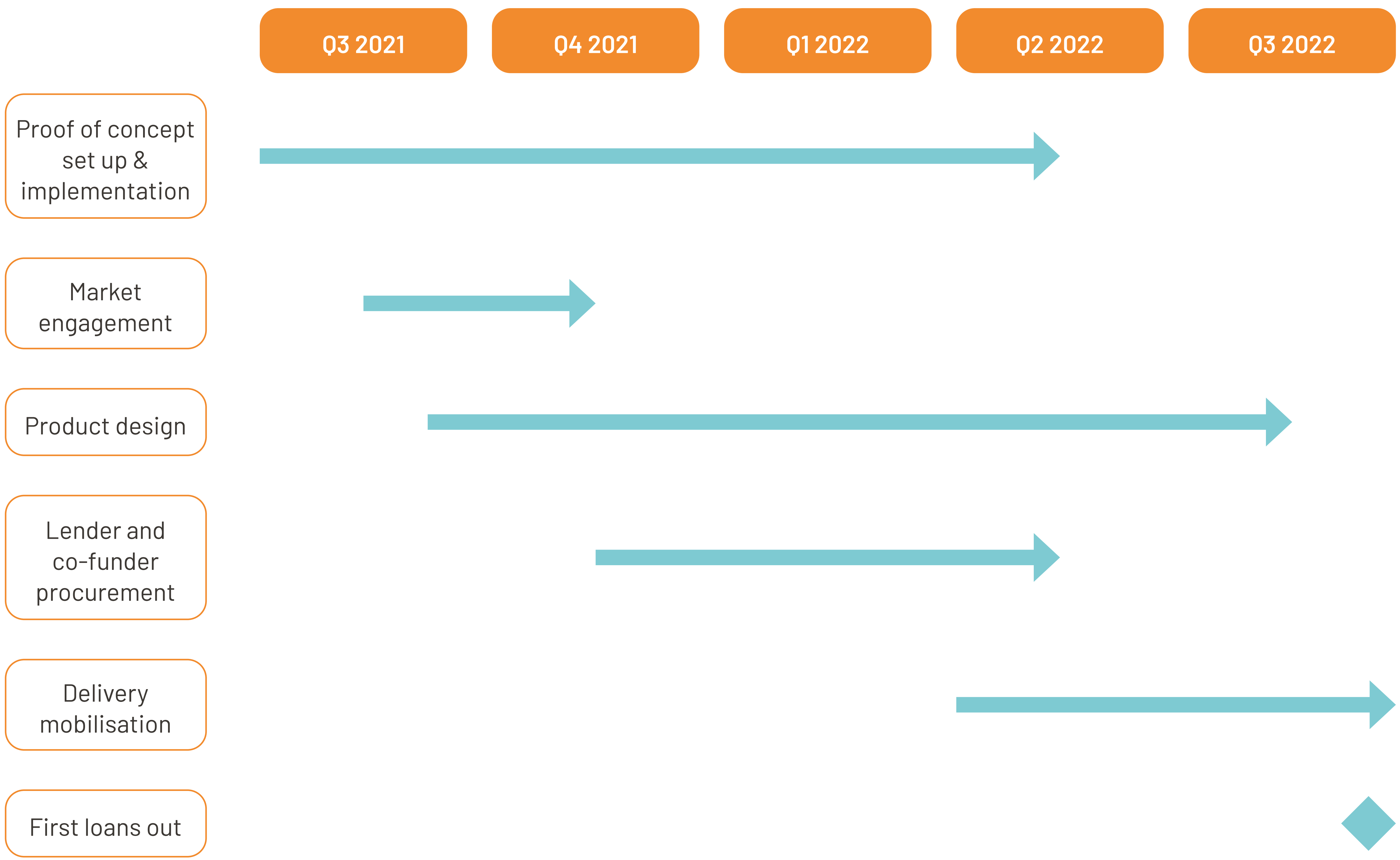
Pilot procurement structure

- The NILS pilot procurement will be structured in lots
- Lenders and co-funders can bid to deliver one or more lots
- We recognise the common bond alignment that will be needed for CU bids
- 8 lots offered:
  - Northern Ireland
  - Scotland
  - Wales
  - England 1, England 2 , England 3
  - All England (3 locations together)
  - All countries (3 English locations, Northern Ireland, Scotland, Wales)
  - We anticipate each location will deliver around 3000 loans, potentially more depending on co-funding

- Alternate lotting structure: we are also considering having a lot to cover all geographies focussed on small value NILS loans which we believe would have slightly different procurement selection criteria and is potentially more suited to a CDFI delivery



Pilot set up timeline overview



Our questions on the pilot structure

- Are you interested in delivering more than one lot?
- If you bid for more than one location, what cost efficiencies in your pricing submission do you expect to be able to offer by delivering more than one site?
- Please share your comments on the option for these contracts to be used for other pilot testing in the future?
- What are your reflections on the need for a different lotting structure for smaller NILS loans?

Please submit your answers to these questions here

How do we propose to run the pilot and bidding process?

- Procurement
- Funding model
- Fee structure
- Contracting
- Delivery

Who and what this section is for

We're managing public money in delivery of this pilot and wish to set the pilot up in a way that is open, transparent, respectful of people's time and successful in attracting the lending providers, referral partners and co funders who will be essential to delivering the pilot and beyond.

We've thought carefully about how best to do this from how we structure bids through to the contracts themselves. In some areas we need to reflect the terms of our funding from HMT so please bear in mind that we may not be able to change all the things you might want to!

This section sets out our proposals on all the technical aspects and we would value your input as to whether these are set to make it attractive for you to put forward a bid and if there are any major issues we haven't covered to adjust before we initiate the bid process.

We've shared fully to hopefully anticipate the key questions bidders would have. Once we have your input we will reflect that in a final process and get things started.

How will procurement work for bidders?

- We want to make sure we'll get compelling bids for these contracts
- Procurement takes a long time so we want it to be worthwhile for bidders and have therefore set up the contracts for longer extensions and for testing other products
- We recognise that we need to cover lenders costs and address their risks in lending through NILS and have set up the fee structure to reflect that
- We are procuring as lots to give us geographic flexibility – you get to pick one or all of the lots you wish to bid for
- We want to work with lenders on other pilots eg consolidation loans and so have made the contracts very flexible and capable of extension in scope and duration
- At the heart of this – we believe in local partnerships and collaboration between lenders and co-funders to build a sustainable NILS

What the procurement approach?

- The procurement process to appoint regulated lenders such as CDFIs and credit unions will kick off in November 2021 following the market engagement
- The procurement process will be structured to encourage joint bids from lenders in partnership with a local agency(ies) such as a housing association or local council, which could act both as a point for customer referral and a funding partner
- The procurement process will determine the areas where the pilot operates
- We will also use this procurement to appoint lenders we may work with in the future to pilot other affordable credit and complementary products that are not related to NILS

What's the potential beyond NILS?

- Future piloting will be subject to our priorities and funding available. Specific pilots may require different lender skillsets and mean that we cannot route specific piloting work through these contracts

- This could include piloting:
  - Solutions to tackle appliance poverty specifically, including white labelling with appliance suppliers
  - Solutions to tackle problem debt such as consolidation loans
  - Pilots for savings and/or insurance products as an addition to loans
  - Trialling products that are designed specifically for comparison sites
  - Other products including but not limited to those enabled by the proposed changes to credit union regulations

Procurement scope and duration flexibility

- We will be procuring lenders and co-funders to deliver NILS for a 2 year lending period (post mobilisation) followed by a period in which evaluation and outcome data will be captured
- The contracts we will issue will contain the right to extend in one year increments for a total of a further additional five years. If ongoing NILS funding is secured this means we may be able to ensure continuity of the NILS pilot areas without a hiatus between the end of lending in the pilot and the 1st year extension
- We want to appoint lenders who may be able to help us with future product piloting work so we will also be issuing the procurement and contract to enable non-NILS products to be tested in subsequent years
- We are seeking input on the total budget envelope during the market engagement so we can set contracts that are capable of extension when other longer term funders commit. Setting a large procurement budget envelope in no way commits us to awarding contracts up to that value, but it gives us the option to do so without a legal/procurement challenge
- Procurement value is in the following range: £0.35m (1 lot no extension) – tens of millions (all lots with extension)
- Initial NILS lender budget to be c£0.35m per location for running costs excludes lending capital, bad debt, central costs, evaluation etc. Lending capital and bad debt to be in separate agreement

Indicative procurement budget envelope

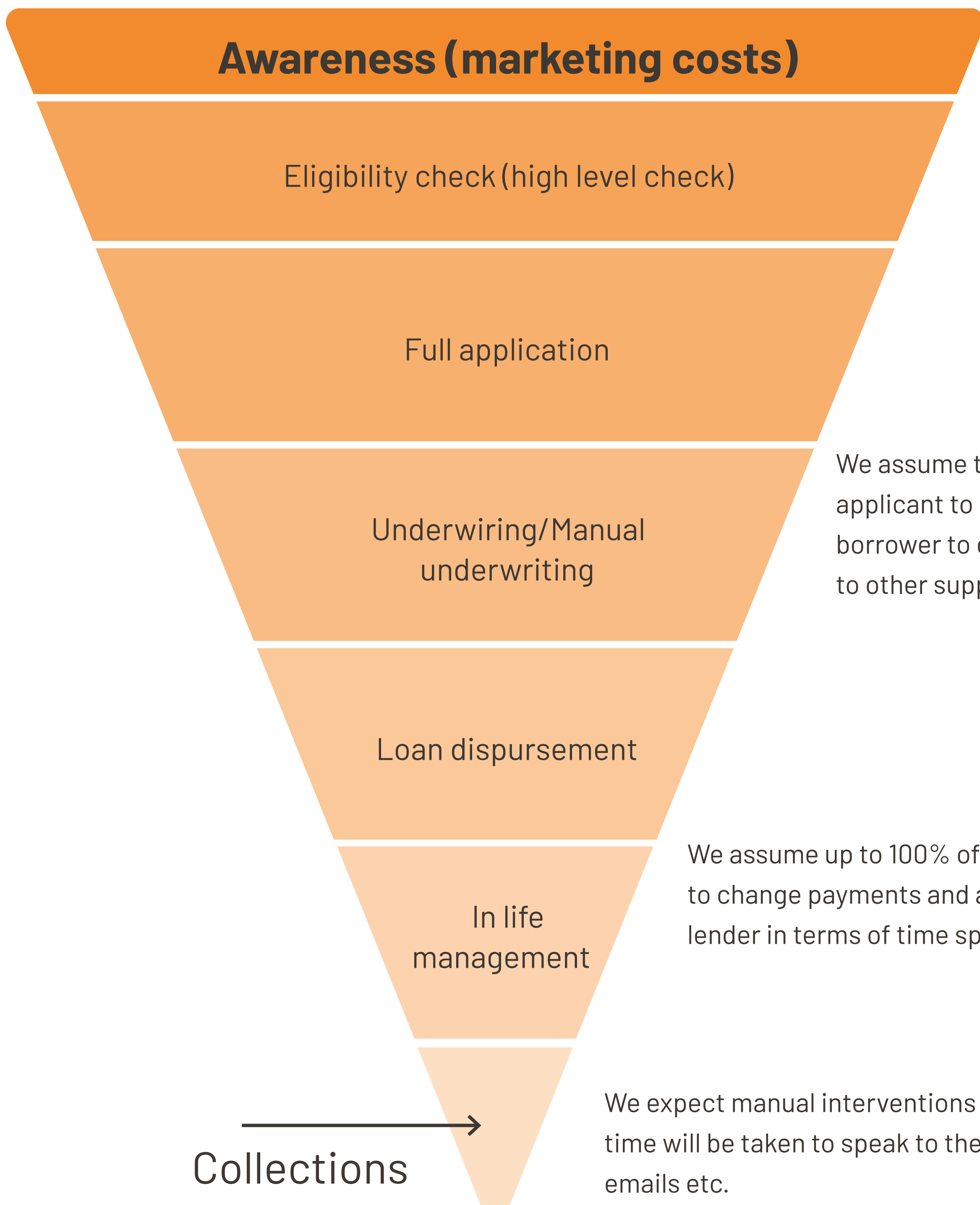
- Additional budget in range to cover extension period and ramping up to scale; and /or piloting other unrelated products all subject to funding being available and the mix below can be varied to suit our requirements

Indicative budget £m (5 year maximum extension in 1 year increments by mutual agreement)								
NILS	Setup period	24 month lending period over 3 fin/years	Post pilot evaluation period	1 year extension	1 year extension	1 year extension	1 year extension	1 year extension
	Higher unit cost to allow for pilot iterations and bad debt			Scaled up delivery; lower unit costs through codified optimal NILS model				
	Est £0.113 m	Est £2.08m	Pricing included in delivery period per unit cost	Estimated range subject to market engagement £12.5 - £50m				
Pilot other products	Subject to priorities and funding, we may also extend the contracts we issue to pilot and scale other affordable credit and complementary products (not related to NILS). A different timetable applies but the total duration will be co-terminus with the NILS agreements							
	Est £0.45m	Indicative estimate £40m phasing of pilot(s) within total contract duration tbc depending on priorities and funding						

How will we make the fees work for lenders?

- We want to make NILS workable for providers
- Lenders NILS pilot costs will be covered through:
  - Set-up/implementation fee (fixed cost)
  - Loan processing fee, recognising a higher cost to serve for this user group and greater management oversight / underwriting needed
  - Bad debt guarantee up to 80% of loan principal
  - Outcome based payment up to 20% of loan principal for loans in arrears and in scope of the bad debt guarantee
- We will reset fees for the extension period for NILS and for other pilots we instigate based on iterative learning and driving down the cost of delivery

Representative NILS loan funnel



Not covered in NILS costs on assumption referrals or declines for interest-bearing loans are source of applications

We assume there needs to be a high allowance of time per applicant to review open banking flags and speak to the borrower to determine state vs trait issues and provide referrals to other support/encourage greater financial resilience

We assume up to 100% of NILS loans need in life support including: flexibility to change payments and ad hoc borrower support (this drives up cost for lender in terms of time spent + payment change fees)

We expect manual interventions will be needed on some loans and have assumed time will be taken to speak to the borrower with some automation in reminders/ emails etc.

- Reviewing the data we have from lenders we have updated our assumptions for NILS
- We have allowed time and/or fixed costs at multiple points of the customer journey
- Our assumptions covers incremental costs per loan and exclude:
  - Awareness raising as we assume NILS loans are via referrals or via declines and we do not fund the marketing/origination cost for the source of the original application
  - Funding the CRA fees for loans that don't convert for NILS loans application that started as declined application for loans with commercial lenders
  - Opportunity cost for lenders in booking a NILS loan not a interest-bearing loan at comparable cost to serve level where interest usually affords some element of profit

Our conclusions so far on cost to serve per loan

- Our analysis suggests that a £30 -70 to serve per loan cost including management costs is a reasonable assumption
- We assume that a portion of loans at each stage of the journey require manual intervention (underwriting, borrower support/ in life care/payment reprofiling/collections). The HMT feasibility study also acknowledges this issue.
- It is our expectation that over the course of the pilot costs to serve (per loan) can be driven down by:
  - Refining the analysis and automated categorisation of open banking data to minimise the need to speak to borrowers to understand their circumstances
  - Improve the pre-qualification of borrowers referred to lenders for NILS by codifying the borrower attributes that are a good match for NILS (and lead to an acceptable level of bad debt)
  - Optimising the lending practices to produce a NILS 'playbook' of the most cost effective delivery
  - Refining the specification of what infrastructure is needed to best run NILS to avoid unnecessary costs eg card payment prompts via SMS not expensive direct debit rescheduling fees
- As we expect the costs to serve to decrease over time with NILS as the pilot optimises the product and the processes, if and when additional funding becomes available to scale the pilot beyond the initial term we will be seeking revised pricing proposals from lenders before entering into extension agreements
- Granular reporting of costs to serve by customer journey step and volumes/conversion ratios per stage will be part of our management information to build better understanding of what it costs to run NILS
- We have not budgeted to cover lenders origination and CRA costs for loans that do not convert, awareness raising costs or opportunity costs

What’s the proposed funding model?

A guarantee for bad debt and lending capital is available through a separate loan agreement where it is required

Provisioning and guarantee for bad debt

NILS loans which are provisioned 100% or are referred to ELDS/CCJ (if/where appropriate) will be covered by a HMT backed guarantee covering 80% of the loan principal. Our planning assumption is that good product and process design will minimise bad debt and we estimate this guarantee will apply to 20-28% of lending. Good lending and collections practice is also incentivised through the outcome based payment.

Lending capital

Some lenders will have excess capital that they are able to lend through NILS and others will require additional capital. Where additional capital is required, this will be available.

What's our proposed fee structure?

We are proposing that bidders who deliver NILS are paid in three ways:

Implementation fee

Configuration costs to include NILS product in lender IT included; no budget for wholesale IT transformation

Milestone payments on completion; commencement payment considered to help fund implementation

Fixed total budget expected range £5k - £30k per lot depending on intensity of changes required

Per loan processing and management fee

Per loan processing fee expected range of £30-70 to be paid covering:

All loan processing and management costs across whole customer journey

Management overhead for supporting NILS pilot including reporting and ongoing data sharing post conclusion of lending period

What's our proposed fee structure?

Outcome based payment for provisioned loans

To cover likely increased costs to support NILS borrowers in arrears we propose to pay an outcome based payment on specific key performance indicators

Applies to loans which are 100% provisioned or referred to ELDS/CCJ where KPIs are met where the outcome based payment + the value covered by the bad debt guarantee does not exceed the loan principal (rough indication is outcome based payment is between £15 -40)

Our cost to serve questions

Customer origination

- We do not expect to pay for specific advertising/origination of NILS loans as customers will come via a referral or a decline route – do you agree with this?

Customer administration costs

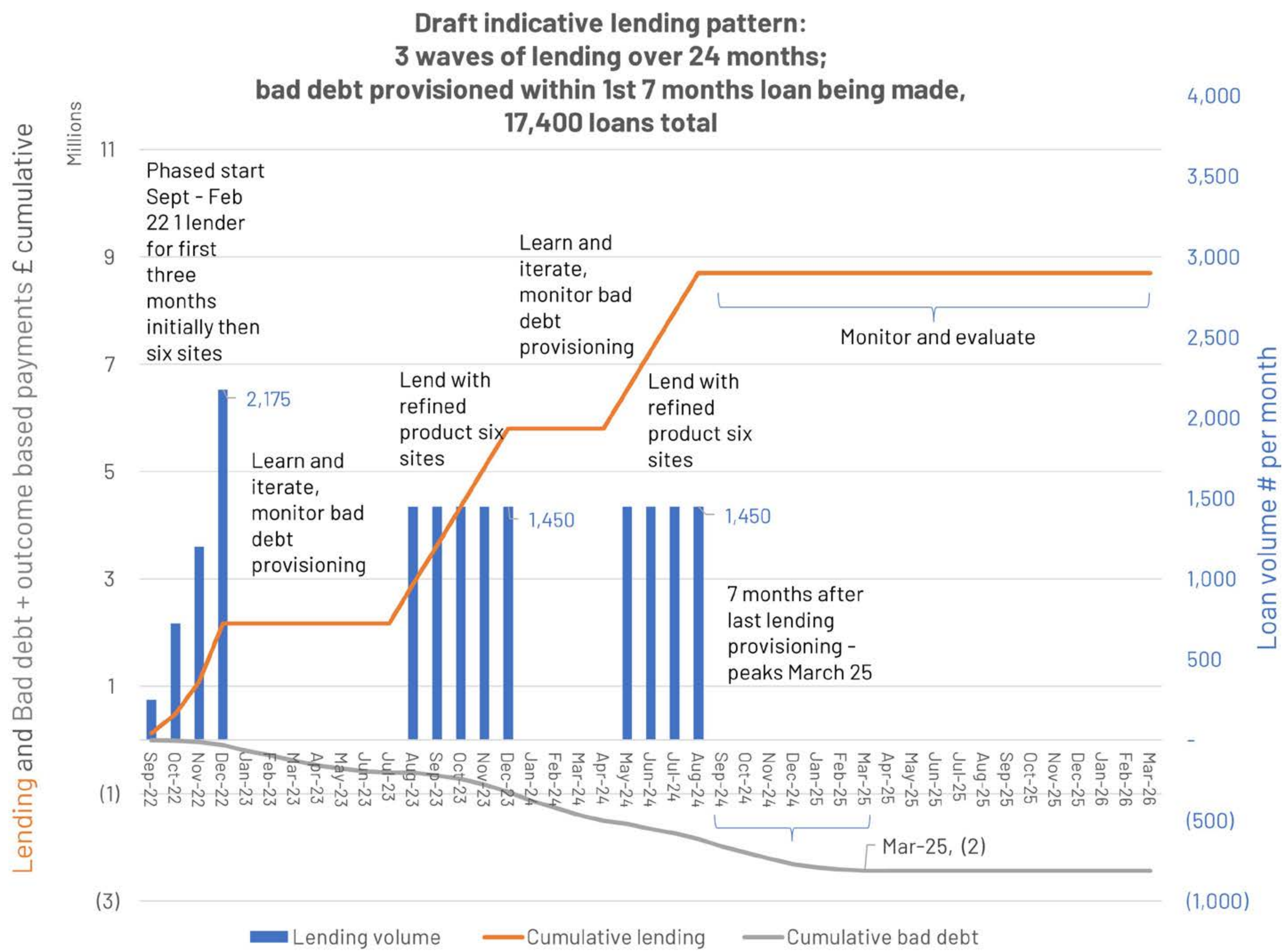
- We do not expect to pay for CRA costs for loans that do not convert, where the original loan application was for an interest-bearing loan (ie the declines route) – do you agree with this?
- What share of NILS borrowers by journey stage do you think will require manual intervention?

Future refinement of costs

- By the end of the pilot do you believe that cost to serve could be reduced through automation and/or codification of good practice?
- Specifically, would you be prepared to enter into discussions to extend the NILS pilot, if additional funding were to becomes available, and to refine your pricing at that point?

Please submit your answers to these questions here

Proposed delivery phasing



- As it's a pilot we will
  - Refine the product with the lenders during the mobilisation/ set-up period once contracts are signed
  - Iterate the product repeatedly during the lending period learning as we go and so we are proposing to have 3 waves of lending to allow time to learn, iterate the product and monitor bad debt
- We assume that bad debt is provisioned to 100% within 7 months of lending subject to lender's existing provisioning policies
- Lending volume is determined by amounts of co-funding and bad debt and we're assuming approximately 3000 loans as an initial indicator per location

Procurement, pricing model, delivery questions

- Which lots would you be interested in delivering?
- Do you have a view on the alternative lotting structure whereby we could have a lot specifically focused on small value loans and delivered across the four nations by a CDFI?
- Are you open to the proposed option to extend the NILS and other contracts in 1 year increments subject to agreement by both parties?
- We are assuming that rolling the pilot out in three waves of lending with opportunities to iterate the product design and processes in between will give us ample opportunity to refine NILS and drive down costs, especially bad debt. Do you have any comments on this?
- Which, if any, elements of this services contract do you expect VAT to apply to?

Please submit your answers to these questions here

Bid response requirements

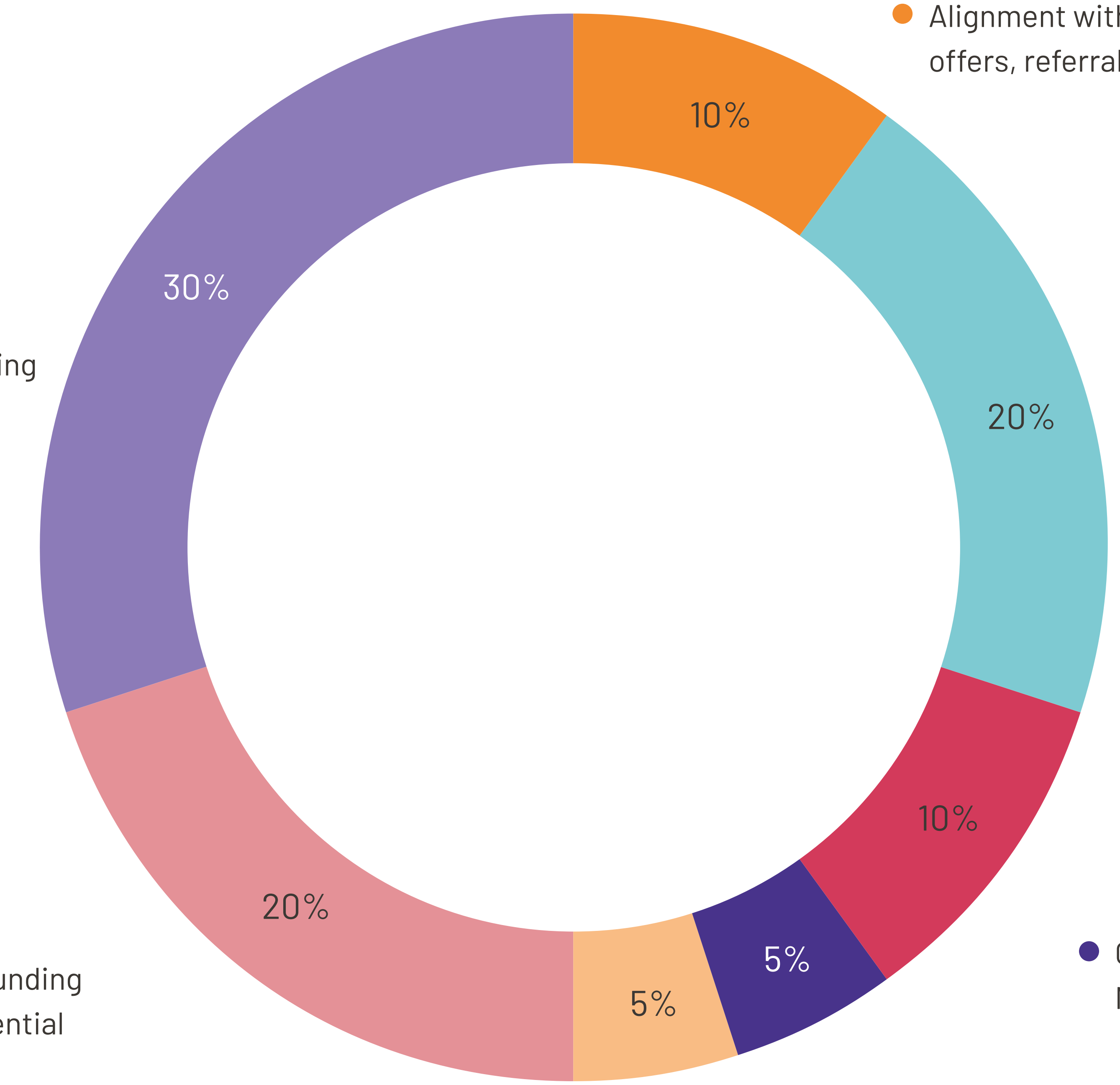
To respond to the NILS tender you will need to:

- Prepare a response to our tender
- Submit a pricing schedule using our template
- Share your
  - Latest two years of audited accounts
  - 3 months of management accounts
  - Provisioning policy in use for last two years as confirmed by auditors
- Sign up to our affordable credit code
- Pass our due diligence on (note these are pass / fail assessments):
  - Not for profit / asset and mission lock status
  - Experience lending to borrowers with comparable characteristics to NILS borrowers
  - Financial sustainability
  - Operational sophistication to be able to rapidly offer a new NILS product and deliver swift decisioning and dispersal of funds

We will provide full instructions on bid responses in the tender pack

Draft tender scoring criteria

- Pilot cost:
  - Implementation cost (fixed)
  - Per loan processing costs including management cost
  - Outcome based payment
  - Local partnership and co-funding commitment in pilot



- Alignment with customer base, complementary local offers, referral partners, vision, wrap around services
- Technical quality submission including loan management methodology (product design, acquisition, applications, IT integration, CRA/Open banking, collections, flexibility, bad debt)
- Implementation plan and ongoing pilot management processes
- Capability for potential scalability under NILS extension or piloting of other products
- Compliance/IT security/quality including state aid/complaints handling
- Future local partnership and co-funding commitment to demonstrate potential for longer term NILS

Contracting approach

Draft contract

A draft contract for services is being shared as part of the market engagement

Contract not a grant

We are using a contract not a grant because we are appointing lenders to deliver something new through this contract and need to ensure we can balance the need for consistency with local customisation to preserve a pilot that is able to be evaluated properly and which makes the case for subsequent scaled delivery

Open to comments

During the market engagement we are open to comments on the draft contract but we do not expect it to change materially

Accepting the draft contract

Once the procurement process has started we will be expecting bidders to accept the finalised contract as part of their bid response as we do not plan to negotiate the contract post the procurement award decision, especially as we may have up to six contracts to execute simultaneously. Acceptance of the draft contract will be a pre-requisite for tender responses to be accepted.

Questions on the bid response requirements, scoring criteria, contracts

- Do you have any comments on the proposed bid response requirements and scoring criteria?
- We welcome feedback on the draft contract however as this mirrors the HMT grant agreement we do not anticipate significant changes to it. Are there any aspect of the draft contract requiring clarification or is there any section or clause you wouldn't be able to sign up to, without negotiation?
- Do you have any comments on the contracting approach?
- Are there any things in the contract which would stop you participating in the pilot?
- Are you intending to bid?
- Within the tender, we are proposing to include due diligence checks which are pass/fail, eg Not for Profit and Asset and Mission Lock status. Are there any criteria which give you cause for concern and which you think are an 'unjustified' obstacle to opening up competition?

Please submit your answers to these questions here

What’s next

What's next?

- Following this webinar we'll publish a market engagement pack and draft contract to get your feedback on
- We would like your feedback on that pa by 18 October
- We will then be issuing the Invitation to Tender around mid November
- Bid responses to the Tender will be due back in late January 2022

Appendix 1

About Fair4All Finance

Fair4All Finance is a not for profit organisation founded in early 2019 to increase the financial wellbeing of people in vulnerable circumstances by increasing access to fair, affordable and appropriate financial products and services.

We have three main priority areas:

- Expanding provision of affordable credit through a scaled community finance sector
- Partnering with banks and financial services providers to support the delivery of products and services for customer in vulnerable circumstances
- New product and market development – developing and scaling products and services to address market gaps

You can find our full strategy here.

About Toynbee Hall

Based in the East End of London since 1884, Toynbee Hall works with the local community and a wide range of partners to shape a fairer and happier future.

We identify systemic failures which create exclusion and hardship, whether from public policy, legislation, regulation, service or product design, or any form of cultural influence.

We ensure that people affected by those failures are involved in designing solutions through connecting Experts by Experience and Peer Researchers to decision-makers and innovators, and supporting them to influence effectively for change.

Since 1995 we have been working with people experiencing financial exclusion to identify the systemic causes, pilot effective solutions and connect those affected with change-makers to create better policies and practice.

You can read more about our work here.

About Fair By Design

Fair By Design is dedicated to reshaping essential services, like energy, credit and insurance, so they don't cost more if you're poor. People in poverty pay more for a range of products including energy, through standard variable tariffs; credit, through pay day loans; and insurance, through post codes considered higher risk. This is known as the poverty premium.

We collaborate with industry, government, and regulators to design out the poverty premium.

Our Venture Fund provides capital to help grow new and scalable ventures that are innovating to make markets fairer.

Fair By Design was conceived by the Joseph Rowntree Foundation and Big Society Capital. The Barrow Cadbury Trust manages the Campaign, and Ascension Ventures manage the Venture Fund.

Appendix 2

fair4all finance

Scotland discretionary and hardship funds

Scotland has various grant schemes and loan funds which need to be considered in the context of the NILS pilot, including:

- **The Scottish Welfare Fund** aims to provide a safety net to people on low incomes who require financial support by the provision of Crisis Grants and Community Care Grants. Grants do not need to be paid back, and are intended to meet one-off needs rather than on-going expenses
- **Crisis Grants** can be awarded to meet expenses that have arisen as a result of an emergency or disaster, and where financial assistance is required in order to avoid serious damage or serious risk to the health or safety of the applicant or their family
- **Community Care Grants** can be provided where a qualifying individual needs help to establish, retain or maintain a settled home within their community
- **The Tenant Hardship Loan Fund (THLF)** launched in December 2020 in response to the continuing financial and employment impacts of the pandemic, offers interest free loans, with a repayment period of 60 months (5 years) to renters in the private and social rented sectors, to address arrears of rent. Applicants can also apply for loan assistance with future rent payments
- The Scottish Government also have ambitious targets around tackling child poverty (and would like to feed into the NILS evaluation to ensure we are capturing data around this)
- **Discretionary Housing Payments** (DHPs) aim to provide a safety net to people on low incomes who require financial support to safeguard their tenancies and prevent homelessness
- DHPs are administered by Local Authorities who are best placed to respond to the needs of tenants and local housing needs and are able to consider the circumstances of each individual case when dealing with applications
- DHPs support tenants struggling with their housing costs where Universal Credit or Housing Benefit does not cover the cost of their rent
- Those in receipt of Housing Benefit or the housing element of Universal Credit who require further financial assistance in order to meet housing costs are eligible to apply

Scotland discretionary and hardship funds

- DHP are split into two streams, Bedroom Tax and 'Other' DHPs:
- **Bedroom Tax** – Bedroom Tax is currently mitigated in full in Scotland. Anyone who is affected by the bedroom tax can apply to their local authority for a DHP which will be awarded to meet the extra costs incurred with the bedroom tax
- 'Other' DHPs - This is split into three streams, Benefit Cap, Local Housing Allowance and Core. They can be provided where a qualifying individual is affected by the UK Government Welfare Cuts such a Benefit Cap and changes to the Local Housing Allowance rates. Other DHPs can also be provided to support needs such as moving costs or rent deposits. Although other Discretionary Housing Payments are allocated to particular streams, Local Authorities have freedom on how they spend them and can top them up from their own resources to address any local priorities
- **The Council Tax Reduction (CTR)** scheme - is there to reduce the council tax liability of lower income households, based on their ability to pay. Just under 500,000 households in Scotland receive some level of CTR, and on average recipients save over £750 a year
- The CTR scheme assesses a household's income, capital, characterises (eg caring responsibilities, if anyone living in the property is disabled, etc.), and composition (eg how many children live in a property). From this it calculates what level of CTR a household is entitled to, which can be any percentage up to 100%, which would mean a property paid no council tax
- Certain specified benefits also entitle a recipient to 100% CTR, subject to any deductions for non-dependents living in the property
- The 11 benefits introduced under **Social Security Scotland**, including seven brand new benefits. When fully operational, Social Security Scotland will administer 17 benefits in total
- A summary table of all the Scottish benefits along with a brief description and implementation dates can be found here
- **A £10m tenant grant scheme** has been announced which will support tenants who have fallen behind on rent as a result of Covid and who are in the most need. The Scottish Government is working with local authorities to decide the best way of administering this fund and further details will be announced very soon

Wales discretionary and hardship funds

Wales has various grant schemes which need to be considered in the context of the NILS pilot:

- **The Discretionary Assistance Fund** aims to provide a safety net to people on low incomes who require financial support in times of need. The grants do not need to be paid back and are intended to meet one-off needs rather than on-going expenses. The Discretionary Assistance Fund (DAF) provides two types of non-repayable grant support: DHPs are administered by Local Authorities who are best placed to respond to the needs of tenants and local housing needs and are able to consider the circumstances of each individual case when dealing with applications

- **Individual Assistance Payment (IAP)** – to meet an urgent identified need that enables or supports potentially vulnerable citizens to establish themselves or remain living independently in the community. To be eligible applicants must be entitled to and in receipt of income related welfare benefits

- **Emergency Assistance Payments (EAP)** – to provide assistance with essential living costs such as food, gas and electricity where an individual is in a crisis situation and in need of immediate financial support. Anyone over the age of 16 can be considered eligible for these payments

- **The Tenant Hardship Grant** – Tenant Hardship Grant was opened in response to the continuing financial and employment impacts of the pandemic. This scheme offers a grant to renters in the private rented sector, to address rent arrears. Applications are made through local authorities

Northern Ireland discretionary and hardship funds

The Northern Ireland Executive is committed to ensuring that the most vulnerable in society can access appropriate help and support in times of emergency or crisis. This support takes the form of immediate short-term financial support in times of emergency or crisis and these should be considered in the context of the NILS pilot.

This financial support includes:

- **The Universal Credit Contingency Fund** is a non-repayable grant to cover living expenses if you find yourself in financial difficulty at any stage between applying for Universal Credit and receiving full payment of the first award – subject to meeting eligibility criteria

- **Discretionary Support** a person on a low income (working and non-working) may access financial support in the form of a loan or a non-repayable grant to assist with a range of crisis situations. This can include an award to assist with living expenses where a claimant has no means of meeting immediate costs for themselves or their immediate family. Awards can also be made to cover the cost of household items (eg beds or cookers). There is no upper limit on the amount that a claimant can receive as a grant however the amount of a loan will take into account the ability to repay. A person can normally receive a maximum of three loans and one grant in a rolling 12 month period. The level of existing Government debt and affordability (ie the ability to repay) will be considered before a loan is made.

- **Welfare Mitigation Schemes** A range of NI specific payment schemes are available to support people who may see their social security benefit payments reduced or ended as a result of changes to the welfare system (including the Benefit Cap and the "Bedroom Tax"). These payments are awarded as grants and can be paid for as long as a person experiences a reduction in their benefits

- **Social Fund Budgeting Loans** may be available for those on a low income and need help with costs such as furniture or essential household equipment, clothing, footwear or home improvements

- **Social Fund Sure Start Maternity Grants** offer a one off payment to help towards the cost of maternity and baby items for those on a low income or getting certain benefits or tax credits. It is tax-free and does not have to be repaid

England **discretionary** and **hardship funds**

- **Local Welfare Assistance Schemes (LWAS)** - DWP provided dedicated LWAS grant funding to each local authority for 2013/14 and 2014/15. From 2015/16 onwards there was no separate LWAS funding stream. Instead, it became part of the general Revenue Support Grant that central government provides to councils to support their spending on any local services. Notional figures published each year show how much of each council's Revenue Support Grant would be expected to be allocated for local welfare provision. This was set at £129.6 million each year until 2019/20 across all higher tier councils in England. In 2020/21 local government finance settlement included an increased notional figure of £131.7 million. However, this funding is not ring-fenced, so councils do not have to spend it on local welfare provision and there are no statutory obligations for them to provide this type of support

- As part of its response to Covid the UK Government provided LA's in England with a **£500m Hardship Fund** to reduce Council Tax bills. The funding was to enable LAs in England to reduce the 2020/21 council tax bills of working age people receiving Local Council Tax Support

- The Government also announced an additional £63m allocation in June 2020, additional to the £500m and **existing welfare funds** that operate

- **Trust and foundation schemes and individual RSL hardship funds** - there are other trusts and foundation funds, for example Turn2Us operate a series of welfare related grant schemes including the Turn2Us Response Fund. There are University hardship funds, musicians funds, and local council hardship funds (eg Southwark) and RSL funds (eg Ocean Housing and Live West)

- **Budgeting loans** are interest-free loans which are repayable from benefit awards usually over 104 weeks. They are designed to help people who have been in receipt of a qualifying benefit for at least six months, with intermittent expenses that are considered difficult to budget for. The qualifying benefits are: Income Support, income-related Employment and Support Allowance, income based Jobseeker's Allowance, and Pension Credit. People who have moved onto Universal Credit are eligible for a Universal Credit Budgeting Advance for emergency household costs (eg broken cooker etc), getting a job or staying in work, funeral costs. Repaid via Universal Credit with restrictions based on your savings and a max amount given depending on household composition. So, single person max is £348; couple £464, with children £812 (single or couple). £100 minimum. More here

Appendix 3

International NILS example: Good Shepherd scheme – Australia and NZ

- The NILS Feasibility Study funded by HMT in 2019 highlights the example of the Good Shepherd scheme in Australia and New Zealand which lends approximately AU$25m through 30,000 loans per year via 170 local community organisations in over 600 locations. Loans are available for essential goods and services such as fridges, washing machines, car repairs and medical procedures for up to $1,500. Loans are repaid over 12 to 18 months
- Eligibility is determined by:
  - income (below AU $45,000) / benefit receipts
  - residence for 3 months or more at an address
  - capability to repay the loan
- Lending is relationship led and a face-to-face meeting is a core part of the customer journey. This contributes to relatively long decision and dispersal times (4 days to several weeks)
- This duration may be too long for many borrowers given the wealth of evidence about borrower decision making speed of decision-making is in the top tier of factors affecting where people turn when they need to borrow, whereas cost is in the second tier
- For this reason we have included speed of delivery as part of our tender assessment criteria