

## Briefing Paper BP5/2015

### Financial Inclusion: Review of the 2015 General Election party manifestos

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May 2015

#### Introduction

The aim of this review is to summarise the positions taken by each of the main UK political parties on financial inclusion as set out in their respective election manifestos.

This paper draws on Rowlingson and McKay's (2015) Financial Inclusion Annual Monitoring Report, in identifying key themes with which to organise this review. The areas covered include: household budgets; bank accounts; savings; pensions, borrowing, problem debt and home insurance. The paper highlights areas of commonality in approach, areas of divergences, as well as drawing attention to new and interesting developments in the area of financial inclusion. The election manifestos included in the review are the Conservative Party, Labour, Liberal Democrats, United Kingdom Independence Party (UKIP), Green Party, the Scottish National Party (SNP) and Plaid Cymru, Wales. The review has not included manifestos from any of the main Northern Ireland political parties.

In the run up to the election, the Financial Inclusion Commission, an independent panel of experts chaired by Sir Sherard Cowper-Coles published a major state of the nation report on financial inclusion, drawing on evidence from academics, policy analysts and practitioners (Financial Inclusion Commission, 2015). The Commission's aim was to 'make financial inclusion a national priority ahead of the 2015 General Election'. It did this by putting forward a set of recommendations it argued was needed to extend access to financial services to those currently excluded, and to gain support from all major UK political parties in the run up to the election campaign. It hoped that these recommendations would be integrated into election manifestos. The paper explores whether this is the case this side of the election.

## **Positions on Financial Inclusion**

Financial inclusion was mentioned directly in four of the election manifestos reviewed. Only Plaid Cymru had a specific policy heading on 'financial inclusion', where it set out its long held commitment to support a credit cap on payday lenders, new ideas to promote the credit union sector, and financial capability education programmes to help people of all ages manage their finances and depend less on debt. Even here, there was no explicit attempt to articulate a financial inclusion strategy if the party gained office or influence. The Conservatives talked about its achievement whilst in office, capping payday lending and how it was committed to financial inclusion and actions that helped vulnerable people get the help they needed. The Labour Party mentioned how it viewed charities, mutuals, co-operative and social enterprises playing a key role in promoting financial inclusion, without providing further details how this might happen and what specific role they might play in achieving this or how this would be funded. The Liberal Democrats' election manifesto made two references to financial inclusion. The first of these was in their plans for banking and financial reform. They were keen to 'ensure access to finance for all, tackling discrimination in the provision of financial services and supporting products that increase financial inclusion'. No further details were given how this would be achieved. The second reference to financial inclusion was in their policies on curriculum and qualifications, where it set out plans to introduce a 'curriculum for life' which would include financial literacy.

## **The continuing squeeze on household budgets**

Pressures on household budgets, particularly the low paid and middle income groups was a strong concern in all of the party manifestos, with all parties pledging to raise the minimum wage. The Labour Party referred to this as the 'cost-of-living crisis' which it said was 'bad for families, bad for business, and bad for Britain' and resulted in lower tax receipts and higher spending on social security. The 'cost-of-living crisis' was one of its two key election pledges along with protecting spending to the NHS. Specific pledges made were to create a fairer tax system, aimed at those on middle and lower incomes by introducing a lower 10p starting rate of tax, paid for by ending the Marriage Tax Allowance. The Green Party went further by pledging to restore the link between benefits and earnings to ensure that state benefits rose as fast as prices.

A number of manifestos made reference to upgrading the National Minimum Wage. The Labour Manifesto set out its plans to raise it to more than £8 an hour by October 2019, bringing it closer to average earnings. This is a figure the Conservatives said it would aim to achieve by the end of the decade. Labour also pledged to give local authorities a role in strengthening enforcement against employers paying less than the statutory minimum. It set out plans to influence employers. They would be eligible for tax rebates through its proposed Make Work Pay procurement contracts. This would provide an incentive for companies bidding for public contracts to promote the living wage by using government procurement powers. Publicly listed companies would also be required to report on whether or not they pay the living wage. The Conservative Manifesto pledged that anyone earning less than £12,000 or on the National Minimum Wage would not have to pay income tax. They also said they would encourage business to pay the living wage, but made the point this should be the case whenever they can afford it. It also said that it would take steps to eradicating abuses where employers refused to pay the minimum wage exclusively in zero hour contracts and exploitation of migrant workers. The Green Party had a far more ambitious plan to raise the minimum wage to a 'living wage' of £10 per hour by 2020. They went on to pledge that people on training or work placements as part of the benefit regime would be paid at least the minimum wage.

All of the election manifestos apart from the Conservatives, pledged to scrap the bedroom tax. The principle of Universal Credit was accepted by the Conservatives, Labour and the Liberal Democrats. But the Green Party, SNP and Plaid Cymru took a similar position to Labour and the Liberal Democrats by pledging to halt its implementation so that a thorough review was undertaken.

Another strong theme to emerge from many of the election manifestos was the impact energy prices were having on household finances and steps that would be taken to address this. The Labour Party made a commitment to act on utilities companies by making a series of pledges to bring down energy bills and increase energy efficiency particularly for low income households. The water industry was also targeted with plans to make all water companies sign up to a new national affordability scheme to help those unable to afford to pay their water bills. Plaid Cymru and the SNP also saw tighter control on energy bills as a priority in helping to tackle the pressure on household finances and fuel poverty by placing pressure on energy companies to pass on lower energy prices to consumers.

Concern over housing costs featured heavily in many manifestos. The Labour Party said it would allow local authorities to negotiate rent reductions on behalf of tenants on housing benefit, on the condition that money saved would be re-invested in building new homes. A number of parties made a commitment to keep the housing benefit cap. However, the Labour Party went on to say that it would explore the possibility of greater flexibility in lowering the cap in some areas. The Green Party pledged to review benefit caps along with the system of benefit sanctions. However, they did have something new to say about how they would tackle the cost of housing in the private rented sector. They said they would establish a Living Rent Commission to look at ways to control rents to bring them more in line with local average incomes. They pledged to introduce what they called a 'living rent'. They defined this as a smart rent control that caps annual increases linked to the Consumer Price Index. The Green Party went on to pledge they would restore Council Tax Benefit at the equivalent of 2012-13 levels for low-income households. UKIP pledged to continue to pay Housing Benefit to young people under the age of 25 as well as to give all tenants the right to ask that it is paid directly to their landlord.

### **Bank Accounts**

Given the role played by the banking sector in triggering the global financial crises, it is not surprising that all of the election manifestos had something to say about the regulation of the financial markets, increasing competition and protecting the interest of the most vulnerable consumers. Another area of concern was the payday lending market and commitments to regulate the sector and protect the interest of vulnerable consumers.

The Conservatives highlighted its achievement in office in creating a new system of banking supervision that would ensure that the financial markets work for the benefit of the whole economy. The Liberal Democrats on the theme of increasing competition and innovation were committed to support alternative finance providers to enable better access to financial services for consumers. Among the entrants mentioned to the market aimed at improving credit access were local authorities and CDFIs. The Green Party also had something to say about increasing competition in the banking sector. They pledged to use the government-owned Royal Bank of Scotland to create a network of 'People's Bank' in every city and region that would offer cheap basic banking services. In addition to this they said they would invest £2 billion in a network of

community banks, mutually owned and serving local areas and particular groups. They did not say which groups of consumers or business sectors that would be targeted.

### **Savings**

There was surprisingly little by the way of new initiatives to extend savings opportunities for low-income groups. The Conservatives said they would introduce a new Help to Buy Individual Savings Accounts (ISAs) to support people saving for a deposit to purchase a property and made a guarantee that ISAs could be passed on to a spouse tax free. The Liberal Democrats did have something new to say about helping individuals to improve their 'financial resilience' by pledging to review hardship payments and making it easier for people to bring forward part of their benefit payments to deal with emergencies. The Green Party pledged to create a green ISA.

### **Pensions**

The issue of pensions attracted the most attention in the election manifestos. Pensioners represent one of the most sought after votes in the run up to the election. The Coalition Government's pension reforms and encouragement for people to save more towards their retirement through auto-enrolment received strong support across all of the manifestos. All of the parties were committed to the principle of protecting the value of pensions through the triple lock, where Basic Pensions increased at least 2.5 per cent, inflation or earnings whichever was highest. There was consensus among Conservatives, Labour and the Liberal Democrats that individuals should have greater freedom to access their pensions. However, Labour said that they would introduce guidelines to avoid mis-selling, whilst the Liberal Democrats focused on charges to pension funds. UKIP made a specific pledge to increase funding for higher standard of independent advice to all pensioners.

The Conservatives reiterated its commitment, whilst in office, that individuals should have the freedom to use pension savings as they want and that this or the income derived from it would be tax-free. Labour by contrast said that they would restrict tax relief to the highest income groups. They also said they would reform the pension market so that the interest of customers was paramount. In terms of the latest product to be introduced to the pension market, the planned Single-Tier Pension received strong support from all of the parties. The Conservatives argued it was an important step to reward savings for retirement. Plaid Cymru however, argued it should be a 'Living Pension' set at least at the rate of Pension Credit. The only announcement

for a new pension product was made by the Green Party. It said that it would introduce a Citizens Pension; a universal pension paid to all pensioners irrespective of their contribution record which they said would ensure that no pensioner would live in poverty. They would ensure that all pensioners living abroad would receive the same pension and annual pension upgrade as those living in the UK. The Green Party pledged to introduce legislation to tackle inequality in pension inheritance for same-sex marriage partners and same-sex civil partners. The Liberal Democrats said it would commission a review to consider the case for introducing a single rate of tax relief for pensions which it claimed would be simpler and fairer and more generous than the current 20 per cent basic relief. Plaid Cymru said they would investigate extending pension coverage to the self-employed.

All of the parties were committed to protect, and in some cases extend pensioner benefits such as free bus pass, and TV licence. Winter Fuel help was one area where there was differing opinions with Labour and the Liberal Democrats scrapping this for wealthier pensioners and the SNP arguing this was necessary given the cold climate in Scotland.

There were differences on the question of retirement age with Labour arguing individuals should have flexibility to choose when they retire; whilst the Liberal Democrats saying that the default retirement ages may force older people out of work on grounds of age. UKIP argued that a more 'flexible state pension window' similar to the system in parts of Europe, where pensioners have control over when they retire and how much state pension they receive. The SNP were committed to review plans to increase the retirement age from 66 to 67.

### **Borrowing**

The credit union sector was mentioned in most of the election manifestos in addressing household debt and providing an alternative to high cost payday lenders, but there were no detailed plans given to support or expand the sector on the scale of the DWP Credit Union Expansion Project. Plaid Cymru did say it would investigate the possibility of using a windfall tax on payday lenders to promote the credit union sector. The Conservatives pointed to their record in office under the Coalition to cap payday lenders and their commitment to support credit unions. However, they did not set out any specific plans to promote the credit union sector. As part of their plan to tackle household debt, Labour pledged to introduce a new levy on payday

lenders to boost competition within the low-cost alternative markets. They mentioned credit unions in this context but like the Conservatives did not say how it hoped to achieve this.

### **Problem Debt**

Most of the manifestos had something to say about the impact on over-indebtedness at household level, but there were few detailed policies set out how this would be tackled. There was a much stronger focus on student debt and plans to address student finance and tuition fees in most of the manifestos. The Conservatives said they would establish a new Financial Policy Commission that would monitor and control the growth of indebtedness and how this might impact on the economy. However, it did not say how this would be achieved, its terms of reference, the Commission's membership or when it hoped to establish it. Universal Credit was seen by the Conservatives as the most effective way to help people manage their personal finances and create the right incentives for people to work. They highlighted the role of churches, faith groups and other voluntary sector organisation in tackling problem debt. The Liberal Democrats said they would develop a strategy to deliver advice and legal support to tackle personal debt, working across government and involving the non-profit advice agencies. However, it provided no detail how this would be funded.

### **Home Insurance**

There was no mention made of home insurance in any of the election manifestos. However, the issue of insurance was referred to in relation to help on flooding. The Conservatives said they were committed to capping the cost of flood insurance. The Green Party went further by stating they would ensure that the government acted as an insurer of 'last resort' where private insurance companies refused to provide flood cover.

### **Conclusions**

Although financial inclusion and issues closely related to it were featuring in many of the election manifestos, there were no detailed or holistic strategies to address this if parties gained office or were in a position to influence government policy. There were clear themes emerging from the manifestos which reflected key political battlegrounds. These related to concerns on household finances, pensions and ensuring more effective financial markets and competition in terms of alternative providers. Credit unions were mentioned directly as an alternative provider, but tended to be talked up more in relation to tackling politically sensitive issues such as the problem

payday lenders presented to those with limited access to borrowing. The only specific funding plan to promote the credit union sector was made by Plaid Cymru when it said that a possible windfall tax of payday lenders could be directed to supporting credit unions. There was no explicit mention made to introduce new savings products or services aimed at lower income groups on the scale of Saving Gateway or Child Trust Fund. The issue of household budgets was being addressed in different ways by the parties, with many focusing on tackling energy prices and costs passed onto consumers and housing costs. The question of housing costs for renters in the private sector received some attention by several parties with various plans set out ranging from introducing greater flexibility on Housing Benefit caps so that more help can be given to people in high cost areas to rent controls. The Green Party referred to this as a 'living rent'.

The issue of problem debt received scant attention, apart from measures to monitor levels of indebtedness in the Conservative Manifesto and plans by Liberal Democrats to deliver a strategy for tackling personal debt. There was very little said about the role of financial capability programmes or supporting the non-for-profit sector in delivering financial inclusion work in the context of huge cuts to the public sector. By far, the biggest concern over debt was that of student debt and possible changes to student finance. Similarly, home insurance received scant attention apart from plans by some parties to look at ways that insurance protection can be extended to areas at risk of flooding. By far, the greatest attention has been given to pensioners, protecting pensions and pensioner benefits. This is unsurprising given the wider political importance given to pensioners by all of the mainstream parties. The question raised at the start, whether the election manifestos have been influenced by the work of the Financial Inclusion Commission, at this side of the election is unclear.

**We would like to thank the Friends Provident Foundation for funding this work.**

***The views expressed in this briefing are the views of the author(s) and do not necessarily represent the views of CHASM as an organisation or other CHASM members.***

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