DEMOS

GOOD CREDIT INDEX 2021

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As always, any errors and omissions remain our own.

Maiyoraa Jeyabraba, Heather Williams-Taplin and Rose Lasko-Skinner

EXECUTIVE SUMMARY

Covid-19, and the lockdown restrictions, have had a significant impact on our financial lives. Those who were already financially vulnerable pre-pandemic have felt the impacts harder. Low-wage earners were more likely to be furloughed or made redundant, as well as lacking a protective savings cushion.[1] The lowest income households have fared worse than the national average; in some places their spending has had to go up while their overall incomes have reduced, meaning they have had to eat into their savings or go into debt to pay their bills.

Geography has also been a factor in the unequal impact on income, employment and being in debt or saving money, depending not just on people's income levels pre-pandemic but also the region they live in.[2, 3] The landscape of credit scores and debt maps onto other shocks from the pandemic: the so-called Red Wall has higher levels of debt, and post-industrial and coastal areas have been hit more by lockdowns due to high concentrations of tourism, hospitality and services.

Our Good Credit Index this year shows some improvements, mostly due to effective government intervention to prevent a financial crisis as well as a health crisis. However, closer inspection shows the same entrenched geographical inequalities we've reported in previous iterations, and the uneven impact of the pandemic across the country is likely to make this situation worse.

Our analysis finds that on average, the overall score for the credit need subindex across the UK improved by an average of 0.78%. This is largely due to the job retention and job support schemes which protected a significant number of people from immediate unemployment, and protections for renters and mortgage holders. The picture varies by local authority, with some areas seeing worsening or improving trends further amplified as a result of the pandemic. As in previous years, high credit need remains concentrated in areas of deprivation.

Credit scores also improved on average by 2.02% in 2021 compared to 2020. This again is likely to be related to payment holidays (including the protection of credit scores) and other pandemic interventions designed to protect consumers. Next year we expect to see credit scores drop. Nonetheless, the local authorities scoring highest and lowest on our credit score subindex have not changed from previous years. This reinforces that these challenges remain deeply entrenched in poor-scoring areas, correlating with the Indices of Multiple Deprivation. Again, there is a clear North-South divide, with the South East seeing generally higher scores.

Our subindex for the physical credit environment worsened across the UK, by 0.16% on average in 2021 in comparison to 2020. This likely reflects the continued closure of payday loan shops and pawn shops on the high street, with additional restrictions due to lockdowns. Some of our data sources were also not available this year due to companies closing or moving their business online. As in previous years, local authorities scoring poorly on this subindex tend to be of two types: deprived, often post-industrial towns with a number of bad credit options and few good credit options; or rural areas that have very little credit infrastructure overall - no bad credit options and few good ones.

Though average credit need scores have improved further since 2020, as we emerge from the pandemic, we can expect to see greater need for credit as the

1 Bell, T. Worse for some: The economic pain is being felt differently by different people. And for many of them, rock bottom is still to come. Resolution Foundation, 2020. Available at: https://www.resolutionfoundation.org/comment/worse-for-some

2 Magrini, E. and Sells, T. An uneven recovery? How Covid-debt and Covid-saving will shape post-pandemic cities. Centre for Cities, 2021. Available at https://www.centreforcities.org/wp-content/uploads/2021/06/An-uneven-recovery-how-covid-debt-and-covid-savings-will-shape-post-pandemic-cities.pdf

3 Beauclair Ltd. Regional inequality in the Bank of England's "lockdown savings". 2021. Available at http://www.beauclair-ltd.co.uk/regional-inequality-in-the-bank-of-englands-lockdown-savings

longer-term effects are felt. An increasing number of people are in debt since Covid-19 hit, and there are serious concerns that the majority of households using a payment arrangement were already in financial difficulty and may find it very hard to either to pay back the money they owe or to meet payments after the arrangements end.[4, 5, 6, 7] A lack of good credit options available on the local high street is very concerning in this context.

Swift government intervention to protect consumers and households from the worse financial impacts of the pandemic has been a lifeline, putting credit need on ice and protecting credit scores. There is widespread concern about the end of the furlough scheme and the temporary uplift to Universal Credit come September. Even as the majority may be able to return to 'normal', there is still a group of the poorest and most vulnerable households that have accrued more debt and who are likely going to experience further hardship when support ends without the right safeguards in place. The Government must not simply pull the plug but set out a roadmap for ending support through furlough, and retain the UC uplift, to avoid the real risk of households being plunged into financial crises.

Addressing entrenched deprivation and credit need at a local level, rather than treating symptoms, is vital to ensuring longer-term change. Local leaders must ensure building financial resilience is a core part of their Covid-19 recovery plans, to truly build back stronger. Our toolkit (www.goodcreditindex.co.uk/toolkit) for building local financial resilience shares the learning from our South Yorkshire Good Credit Project, setting out practical tips and case studies to reduce credit need, raise credit scores, and improve the credit environment.

4 StepChange. Tackling the coronavirus personal debt crisis. 2020. Available at https://www.stepchange.org/Portals/0/assets/pdf/tackling-the-coronavirus-personal-debt-crisis.pdf

5 ONS. Personal and economic well-being in Great Britain: January 2021. 2021. Available at https://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/bulletins/personalandeconomicwellbeingintheuk/january2021

6 Round, A. Nanda, S. Rankin, L. Helping Households In Debt. The Centre for Economic Justice, IPPR, 2020. Available at https://www.ippr.org/files/2020-11/helping-households-in-debt-nov20.pdf

7 Standard Life Foundation. Emerging from Lockdown. 2020. Available at https://www.aberdeenstandard.com/docs?documentId=GB-280920-130082-1

INTRODUCTION

In 2019, the inaugural Good Credit Index showed that access to affordable credit is a geographic issue. Differences in credit need, and in the options available on the high street, create vast inequalities between regions, towns and even streets. Credit providers often consider where a person lives when they assess risk, meaning someone might pay more for the same loan because they live in a more deprived area. Credit options are unevenly spread across the country, with payday lenders disproportionately clustered in deprived areas.[8]

For those living in areas with high concentrations of bad credit options, it becomes more difficult to make choices that secure financial resilience, and people who are already financially unstable or indebted can slide into a downward spiral. While more affluent households might rely on credit cards or bank loans with low interest rates, poorer households might be forced to turn to High-Cost Short-Term credit (HCSTC) such as payday lenders or rent-to-own shops which often increase their financial troubles.[9]

The annual Good Credit Index measures access to affordable credit across the country to understand these geographical discrepancies at a more granular and comprehensive level than ever before. By repeating the Good Credit Index each year, we can increase our understanding of complex issues of geographical financial exclusion.

In the Good Credit Index, access to good credit is divided into three different strands:

1. credit need. Are people in need of credit? It includes indicators such as the percentage of households struggling to keep up with bills, the percentage of people on low incomes and the volume of credit searches.
2. credit scores. Do people have sufficiently high credit scores to access credit options with lower interest rates?
3. credit environment. What type of credit does the local high street offer? This strand classes bank branches, free cash points and credit unions as positive factors and payday lenders as negative factors.

Our Good Credit Index this year shows some improvements, mostly due to effective government intervention to prevent a financial crisis as well as a health crisis. However, closer inspection shows the same entrenched geographical inequalities we've reported in previous iterations, and the uneven impact of the pandemic across the country is likely to make this situation worse.

As we emerge from the pandemic, we can expect to see greater need for credit as the longer-term effects are felt. We make recommendations for Government and local leaders to address these effects and to build citizens' financial resilience.

8 Warren, T., UK: One short term lender for every seven banks on the high street. The Bureau of Investigative Journalism, 2014. Available at www.thebureauinvestigates.com/stories/2014-03-12/uk-one-short-term-lender-for-every-seven-banks-on-the-high-street

9 FCA. Call for Input: High-cost credit Including review of the high-cost short-term credit price cap. 2016, pp. 20 Available at www.fca.org.uk/publication/call-for-input/call-input-high-cost-short-term-credit.pdf

METHODOLOGY

The annual Good Credit Index is intended to offer a geographic look at access to good credit around the UK, utilising both private and public sector administrative and geospatial data. The Good Credit Index is based on three sub-indices measuring different aspects of credit which were found to be important based on focus groups and a literature review.

These three strands are: the credit environment (the physical availability of good and bad credit on the high street); credit scores (the likelihood that citizens would be approved for credit); and credit need (the likely demand for credit, particularly short-term credit).

The overall Good Credit Index was created by summing these three sub-indices, with an equal weighting given to each.

LEVEL OF ANALYSIS

The index is calculated at the local authority district level, which, given the available data, was the most granular level to feasibly examine. We chose to exclude Isles of Scilly, the Orkney and Shetland Islands, the Outer Hebrides and the City of London, for which the index was unreliable due to their small populations.

DATA

We used a variety of data sources to produce our indicators for the Good Credit Index.

These include publicly available national statistics, publicly published data from financial inclusion charities, geospatial data scraped from Open Street Map and credit provider websites, and private data kindly provided to us by credit reference agencies Experian and Equifax. In every instance we used the most recent available data. The datasets we received were aggregated to the local authority level. None of the data sets offered information about individuals.

Due to time lags in publishing national statistics, some data are from 2021, whereas others are from 2020, 2019 and 2018. For a full list of data sources, see Appendix B. Some of the indicators used in the index are directly linked to access to good credit. For example, when people's credit scores are high, they will be able to access a wider variety of credit sources. Other indicators are used as proxies. Gross Disposable Household Income is one of the proxies for credit need, as those on low incomes will more often require credit to meet their financial obligations or weather unexpected storms. In other cases, the proxy intends to capture something which is otherwise difficult to measure. In the credit environment, we include financial services such as free cash points. This is not meant to suggest that in the absence of free cash points, people opt for bad loans, but rather to capture a general measure of geographical financial inclusion.

WEIGHTING

For each of the sub-indices, the sources used to calculate the index were weighted based on our assessment of their relative importance, using findings from 2019 polling to weight the credit environment and using regressions against suitable proxies for the credit scores and credit need. The table below outlines what the various strands were weighted against.

STRAND	WEIGHTED AGAINST
Credit Need[10]	2021 volume of Bank searches by local authority[11]
Credit Scores	(weighting not necessary)
Credit Environment	2019 Demos polling on the relative benefit or harm of having a particular financial service on the high street

10 A low credit need score means there is a higher need for credit in that area. Low scores on each of the sub-indices indicate a more precarious credit situation.

11 Using a multivariate regression analysis, we determined the extent to which the different variables (gross disposable household income, claimant count, level of overindebtedness, proportion of the population earning under £10k) predicted the frequency with which people in a certain area would do a bank search. The outcome of this analysis determined the weightings, which were used for the 2019, 2020 and 2021 Good Credit Index.

UPDATES TO THE DATA SOURCES

In 2020, new and more comprehensive data became available, that has led to some changes in the data sources and methodology used for calculating the sub-indices.[12] We followed through with this method for the 2021 index.[13] In May 2021, the Office for National Statistics made various changes to local authority codes and boundaries. Although the 2021 Good Credit Index uses various data sources from before May 2021, it describes the data using the most recent local authority codes and boundaries to avoid losing out on key areas that have been combined since.

This year, we included two new variables: Bank Search data and Hard Bank Searches. There was a notable increase (almost seven-fold) in our previous indicator, Credit Broker Searches, which was driven by the profile of clients that log these searches with Equifax. As this was not driven by consumer behaviour, we opted for another measure that does

LIMITATIONS

The intention of the Good Credit Index is to give a sense of the overall financial health of an area, so we advise against reading too much into a local authority being placed 133rd versus 134th, and instead focus on the broad patterns and trends that appear in geographic distribution and the similarities and differences across overall higher and lower scoring local authorities.

The average credit scores for the 2021 Good Credit Index were provided by credit reference agency Experian, and represent the average credit scores of those who check their score with Experian. This might not capture all credit scores in a local authority, but provides a useful thinking tool for patterns across time and across the UK.

There are also elements of access to good credit which were not included because of a lack of available data at a local authority level. This includes levels of fraud (which severely affect credit scores), the use of illegal money lenders (which is an indication of serious credit need) and access to credit options online. For a more detailed methodology, see Appendix B. For more detailed results, see the full index at demos.co.uk/project/good-credit-index-2021/.

12 Data on the number of bank branches.

13 In particular, the methodology for the credit environment was changed: One variable was taken out of the calculation, and the weightings and formula of the total environment index were changed in order to account for this. This method was used for the revised 2019 and 2020 Good Credit Index.

POLICY CONTEXT

This section reviews policy developments since the last index was published in July 2020. To recap, in response to Covid-19, the government has made significant interventions to protect people's incomes during the restrictions, including protecting people's incomes through the furlough scheme and increasing welfare support through an uplift in Universal Credit by £20 per week and providing local authorities with hardship funds to enable them to support people in emergencies.[14]

COVID-19 AND CREDIT

In addition to protecting incomes and boosting welfare support, the government and the financial regulator, the Financial Conduct Authority (FCA), has taken steps to protect consumers' access to credit. This has included working with mortgage lenders, credit providers and credit reference agencies to ensure people in the UK are able to manage their finances by "providing payment holidays on mortgages (including Buy to Let mortgages to help renters), consumer credit products and support on overdrafts."[15]

Fair 4 All Finance launched a Covid-19 Resilience Fund in April 2020 offering the affordable credit sector financial assistance to help organisations manage the impact of lost income and additional forbearance costs caused by the crisis, as well as funding for technical support needed to adapt models to serve customers during this period. By June 2021, £3.84m had been committed to 31 community finance providers, helping to preserve around 50% of affordable credit lending capacity targeted at customers in vulnerable circumstances.[16]

According to the FCA, since March 2020, there have been 4.5 million payment deferrals on credit services such as mortgages and consumer credit products under the Payment Deferral Guidance (PDG). Further, the Financial Lives Survey revealed these have been crucial for those that received them: 70% would have struggled without it and 71% said they would have struggled without a credit payment deferral.[17]

Alongside payment holidays, the three major credit rating agencies (CRAs) - Experian, Equifax and TransUnion - have protected people's credit scores through the agreed 'payment holidays' with lenders.[18] According to the FCA, government action has meant Covid-19 has had limited impact on credit scores.[19] Although, many worry that credit scores may still worsen due to short-term lending.[20]

There are also concerns that as government schemes are peeled back we'll see immediate and sharp impacts on financially vulnerable households. Some of the measures announced last year have come to an end. For example, the ban on evictions has come to an end, causing a 17% increase in people with issues about being evicted from their private rented

14 Francis-Devine, B. Coronavirus: impact on household debt and savings. House of Commons Library, 2021. Available at https://researchbriefings.files.parliament.uk/documents/CBP-9060/CBP-9060.pdf

15 UK Government. Government Response: "Tackling Financial Exclusion: A country that works for everyone? Follow-up report". 2017. Available at https://committees.parliament.uk/publications/6317/documents/69458/default/

16 Data shared with Demos by Fair4AllFinance.

17 Financial Conduct Authority. Financial Lives 2020 survey: the impact of coronavirus. 2021. Available at https://www.fca.org.uk/publications/research/financial-lives-2020-survey-impact-coronavirus

18 Cox, A. Credit reference agencies unite to confirm that credit scores will be protected during COVID-19. Open Banking Expo, 2020. Available at https://www.openbankingexpo.com/news/credit-reference-agencies-unite-to-confirm-that-credit-scores-will-be-protected-during-covid-19/ [date accessed: 03/03/2021]

19 FCA. The Woolard Review - A review of change and innovation in the unsecured credit market. 2021. Available at https://www.fca.org.uk/publication/corporate/woolard-review-report.pdf

20 Howard, L. Credit score damage due to coronavirus pandemic could increase cost of borrowing for millions. Daily Record, 2020. Available at https://www.dailyrecord.co.uk/lifestyle/money/credit-score-damage-due-coronavirus-22446542 [date accessed: 03/03/21]

accommodation.[21] Many expect high levels of debt advice will be needed, while payment holidays that have avoided problematic debt in the short-term are likely to mean people find themselves in difficulty or greater difficulty when the instalments return.[22] This is likely because customers have continued to accrue debt during the payment holidays.

There are concerns that the pandemic has left people exposed to illegal money lending, and created practical difficulties for investigators. Figures show falling numbers of new investigations compared with previous years in parts of the UK. It comes as criminal lenders have been shaming non-payers on social media.[23]

REGULATORY CHANGE

The FCA paused work on longer term projects because of Covid-19, so that it could enable firms to focus on supporting consumers in the immediate terms.[24] However, this year there has also been longer-term developments in improving people's access to credit through regulatory change and piloting new products.

To help safeguard people's access to physical cash, as of June 2021 Financial Services Act 2021 has allowed shops and other businesses to offer cashback without a purchase to customers more easily.[25] A consultation published by the Treasury has put forward other potential measures such as the powers to require certain firms (e.g. retail banks) to provide deposit and withdrawal facilities for customers within specified distances.[26]

The Government is committed to mitigating the risks of bank closures beyond the Access to Banking Standard alternative, but to date is not intervening in commercial arrangements.[27] It is encouraging the Post Office trialling two Bank Hubs which offer local consumers basic banking and cash services, as well as the opportunity to see community bankers from their own bank.[28]

No interest loan schemes

This Spring Budget 2021 budget announced £3.8 million worth of funding for the pilot for no interest loans schemes, to expand credit services to people on lower incomes and prevent them from being pushed into high cost credit.[29] This move is welcomed by a number of key players including the LGA, who "look forward to working with Government to ensure it integrates effectively with financial inclusion support that councils are already providing to residents."[30]

Buy now pay later agreements

In addition, the FCA announced in February 2021 that it would start regulating interest-free buy-now-pay-later credit agreements such as Klarna to protect consumers after the Woolard Review found consumers were at risk of harm.[31] According to the Treasury, 2020 saw consumption of said products triple, indicating increasing popularity without protection.[32]

21 Citizens Advice. Housing issues surge as end of the eviction ban nears. 2021. Available at https://www.citizensadvice.org.uk/about-us/about-us1/media/press-releases/housing-issues-surge-as-end-of-the-eviction-ban-nears/
22 Round, A. Nanda, S. Rankin, L. Helping Households In Debt. The Centre for Economic Justice, IPPR, 2020. Available at https://www.ippr.org/files/2020-11/helping-households-in-debt-nov20.pdf; Money Advice Trust. How people in debt are coping with the impact of Covid-19: Stories from the Debt Advice frontline. 2020. Available at http://www.moneyadvicetrust.org/researchpolicy/research/Documents/How%20people%20in%20debt%20are%20coping%20with%20the%20impact%20of%20Covid19.pdf
23 Peachey, K. Loan shark fears as fewer investigations begin during Covid crisis. BBC News, 2021. Available at https://www.bbc.co.uk/news/business-56209070 [date accessed: 08/02/2021]
24 FCA. Coronavirus (Covid-19): delayed activities and regulatory change. 2021. Available at https://www.fca.org.uk/information-firms-coronavirus/delayed-activities [date accessed 13/08/21]
25 UK Government. Government Response: "Tackling Financial Exclusion: A country that works for everyone? Follow-up report". 2017. Available at https://committees.parliament.uk/publications/6317/documents/69458/default/
26 Shalchi, A., Evans, J., Bennett, O., and Browning, S., Protecting access to cash. House of Commons Library, 2021. Available at https://commonslibrary.parliament.uk/research-briefings/cbp-9054/
27 The Lending Standards Board. The Access to Banking Standard Review Consultation. 2021. Available at https://www.lendingstandardsboard.org.uk/wp-content/uploads/2021/06/The-Access-to-Banking-Standard-Review-2021-Consultation-Paper-June-2021.pdf
28 Shalchi, A., Evans, J., Bennett, O., and Browning, S., Protecting access to cash. House of Commons Library, 2021. Available at https://commonslibrary.parliament.uk/research-briefings/cbp-9054/
29 Local Government Association (LGA). Budget 2021 – On-the-Day Briefing. 2021. Available at https://local.gov.uk/parliament/briefings-and-responses/budget-2021-day-briefing
30 Local Government Association (LGA). Budget 2021.
31 HM Treasury. Buy-now-pay-later products to be regulated. 2021. Available at https://www.gov.uk/government/news/buy-now-pay-later-products-to-be-regulated
32 FCA. The Woolard Review - A review of change and innovation in the unsecured credit market. 2021. Available at https://www.fca.org.uk/publication/corporate/woolard-review-report.pdf

Breathing space scheme

The Breathing Space scheme, devised by the new Money and Pensions Service (MaPS), was launched in May 2021 providing people with problem debt "legal protections from creditors chasing them for payments and a freeze on most interest and charges on their debts for up to 60 days." The scheme will apply to: "credit and store cards; personal and payday loans; overdrafts; utility bills, rent and mortgages arrears; and government debts like tax and benefits" and will be paid for by the £94.6m in debt advice funding for MaPS 2021/2022.[33]

FCA's high-cost credit regulations

As noted in previous reports, the FCA's rules for payday lenders introduced in 2017 has led to the continued retreat of payday lenders from the high street and in some cases withdrawing from the market.

33 Money and Advice Pensions Service. New £2.4m pilot for people in mental health crisis to help avoid spiralling debt. 2021. Available at https://www.maps.org.uk/2021/05/10/new-2-4m-pilot-for-people-in-mental-health-crisis-to-help-avoid-spiralling-debt/

INSIGHTS

AGGREGATE GOOD CREDIT INDEX 2021

Overall, most places in the UK score well on the aggregate Good Credit Index. Those scoring best are mostly concentrated in areas on the outskirts of London (e.g. Elmbridge, St Albans, Epsom and Ewell). A handful of local authorities in the West Midlands and Northern England have seen their Index score worsen or remain poor, such as Blackpool, Middlesbrough and Kingston upon Hull

Figure 1 shows the relative difference with last year's index and highlights that regions in Scotland, Northern Ireland and South West of England have seen significant declines in their scores.

Regions with lowest GCI scores are mostly situated in the North East; Hartlepool and Middlesbrough are consistently poor performing areas in our Index. This finding is consistent with Lowell's Financial Vulnerability Index, which tracks the economic

FIGURE 1
AGGREGATED INDEX 2021 MAP

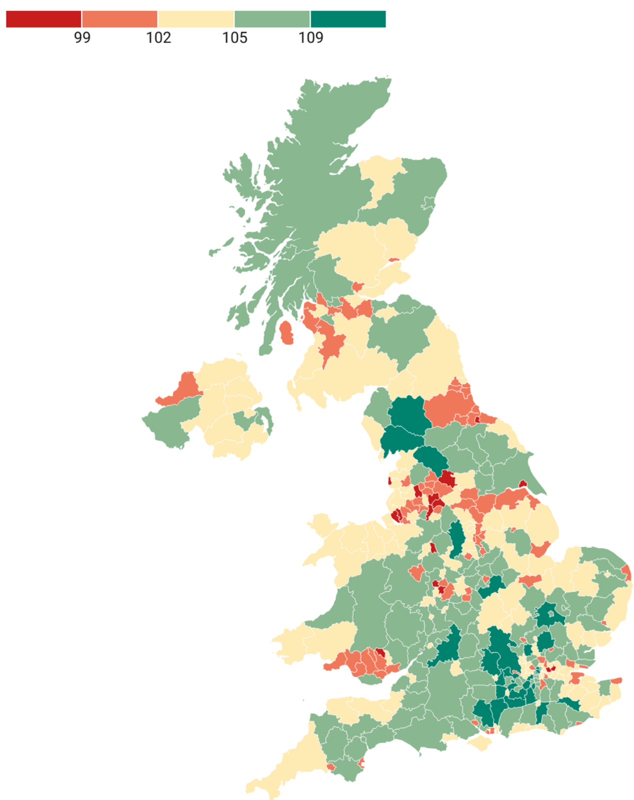
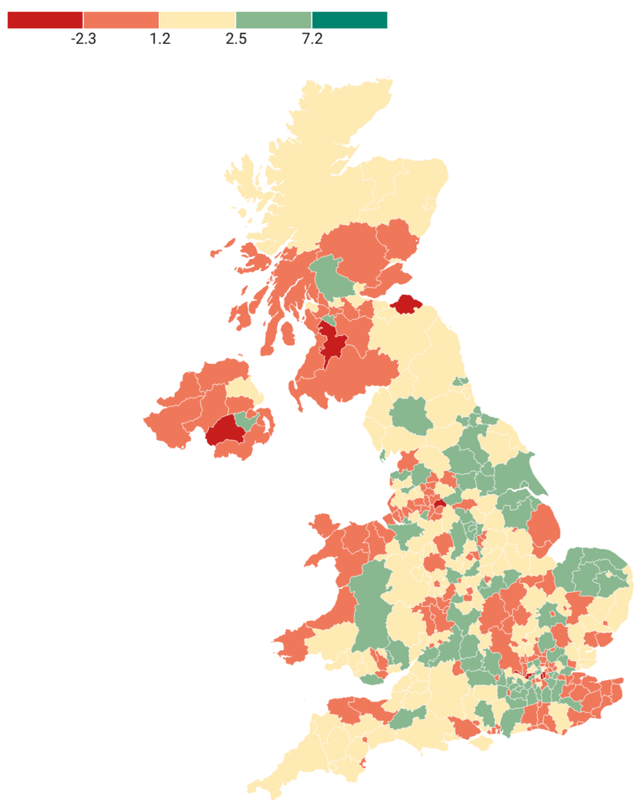


FIGURE 2
RELATIVE DIFFERENCE IN AGGREGATED 2021 INDEX TO 2020



impact of Covid-19, as well as Brexit, across the UK: North East England was the most financially vulnerable region in their data period 2017 to 2020. This region also has the highest unemployment rate as well as the highest share of people with low incomes. Blackpool, Middlesbrough and parts of London also score low on our index with high levels of financial vulnerability. Households in the South East of England were the least financially vulnerable, a pattern which is consistent with our findings from the Good Credit Index.[34]

Many places in areas that have historically relied on heavy industrial manufacturing, such as Middlesbrough, and those representing coastal towns, such as Blackpool, show consistently higher credit need and a lack of credit availability than other parts of the UK.

CREDIT NEED

Credit need predicts the likelihood that households will be unable to meet financial commitments and therefore be in need of short-term consumer credit.[35] This can be as a result of a number of factors: low or no income; high household costs that cannot be covered by the available income; or a combination of low savings and economic shocks. The onset of the pandemic was a severe global economic shock, and will have impacted many household budgets.

In March and April 2020, data from credit reference agencies showed that the number of enquiries and applications for credit actually dropped significantly as consumers were reluctant to take on more risk. Demand started to recover quickly and was back to pre-Covid levels by early June 2020.[36]

Much media coverage early on in the pandemic focused on reduced spending and the subsequent 'lockdown savings'. The ability to save was not universal though and in fact had a geographical aspect. In December 2020 the Bank of England estimated that households had accumulated over £100bn of "lockdown savings": in reality, London and cities in the South East had over 50% of these savings while cities in the North East had just 1%.[37] People who started 2020 with low or no savings would likely be in need of credit as the year wore on.

Using data on over-indebtedness, Gross Domestic Household Income (GDHI) and claimant count, our findings this year show that between 2019 and 2020, the need for credit across the UK actually improved by an average of 0.78%.

This notable improvement can be attributed to JRS and JSS schemes that were put in place as the UK went into lockdown. Without this swift government action, we would expect credit need to have increased significantly instead. The evictions ban also meant that renters whose incomes were severely affected by Covid-19 and who could no longer afford their rent were consequently not seeking credit in order to stay in their home.

Areas with a higher score on our credit need subindex (shown in green in our maps) have lower credit need. These areas are mostly concentrated in Greater London (e.g. Kensington and Chelsea, Richmond upon Thames, Elmbridge) and the South East (e.g. Waverley), which is consistent with our findings from previous years. Areas with a lower score on our sub-index (shown in red in our maps) have higher credit need and tend to be concentrated in parts of London, the Midlands and the north of England.

The majority of local authorities in the UK have seen little change in their credit need score since 2020 (see Figure 3). However, a few areas have seen worsening or improving trends further amplified as a result of the pandemic (e.g. Kensington and Chelsea, Westminster, Richmond Upon Thames, Newham, Barking and Dagenham, Luton, Blackpool).

34 Braga, B., McKernan, S.M.,and Congdon, W.J. Financial Vulnerability in the United Kingdom: From Brexit to the COVID-19 Pandemic. Lowell Financial, 2021. Available at https://apps.urban.org/features/uk-financial-vulnerability-index/financial-vulnerability-in-the-united-kingdom.pdf

35 As noted in previous reports, credit need does not necessarily translate into credit use: areas with the most uptake of unsecured consumer borrowing are also the more affluent areas with the lowest credit need, often around the outskirts of London and in the South East in 'stockbroker belt' areas.

36 FCA. The Woolard Review - A review of change and innovation in the unsecured credit market. 2021. Available at https://www.fca.org.uk/publication/corporate/woolard-review-report.pdf

37 Beauclair Ltd. Regional inequality in the Bank of England's "lockdown savings". 2021. Available at http://www.beauclair-ltd.co.uk/regional-inequality-in-the-bank-of-englands-lockdown-savings

CASE STUDY

Sheffield City Region is the combined authority for South Yorkshire, covering Sheffield, Barnsley, Doncaster and Rotherham. Following our first Good Credit Index in 2019, the region was chosen as the site of a year-long place-based financial inclusion initiative, as it highlights many of the credit challenges faced by people in the UK. Barnsley and Doncaster count as 'credit deserts', where poor credit provision meets high credit need. Rotherham and Sheffield perform slightly better, but still face a combination of poverty, thin credit files and high insolvency rates. We worked with the city region mayor and other local stakeholders from the public, private and voluntary sectors to co-design tailored initiatives to improve the credit environment, sharing our learning in a toolkit for other local leaders.

Over the last three years, the region's overall Index score has increased by an average of 1.7%. Sheffield saw the highest increase of 3% and Barnsley the lowest, of 0.1%. Following the national trend, credit scores have improved this year and there have also been improvements in the local credit environment. Doncaster, however, saw the smallest improvement in its credit environment, suggesting it could be at risk of worsening credit conditions. The need for credit has unfortunately increased this year by 2.2%, which we can assume to be a direct result of the pandemic. Doncaster and Rotherham saw the sharpest increase in need.

This indicates that the recent focus on building financial resilience in South Yorkshire is having a positive impact, but that the pandemic is putting this progress at risk. Sheffield City Region is prioritising financial inclusion as part of its post-Covid economic recovery plan; see our recommendations for how other local leaders can follow their example.

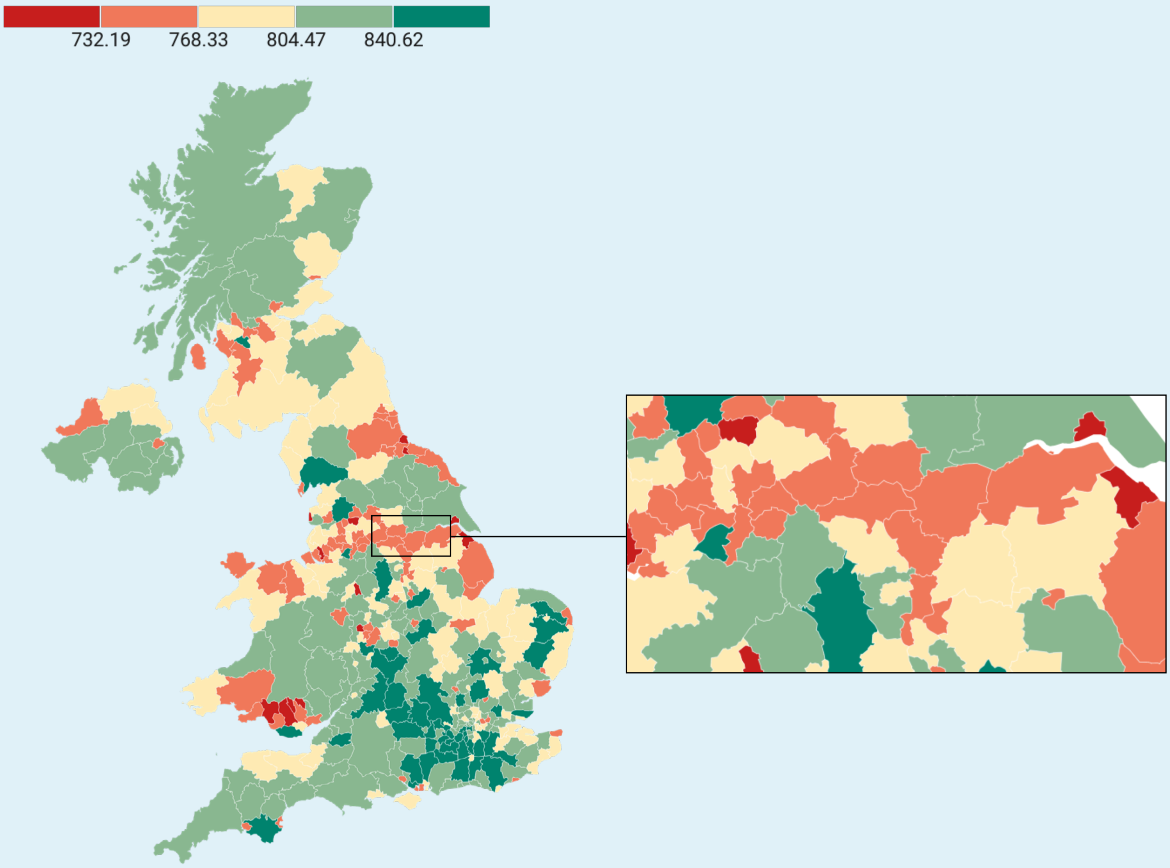


TABLE 1
AREAS WITH THE HIGHEST NEED FOR CREDIT 2021

83.68	Newham
84.14	Barking and Dagenham
85.32	Blackpool
85.87	Birmingham
86.01	Luton
86.54	Sandwell
86.56	Oldham
86.81	Wolverhampton
87.06	Kingston upon Hull, City of
87.06	Manchester

TABLE 2
AREAS WITH THE LEAST NEED FOR CREDIT 2021

127.73	Kensington and Chelsea
111.76	Westminster
106.51	Richmond upon Thames
106.19	Camden
105.91	Elmbridge
105.60	Waverley
104.54	St Albans
104.42	Mole Valley
103.79	South Oxfordshire
103.54	Guildford

FIGURE 3
MAP OF CREDIT NEED SUB-INDEX SCORES 2021

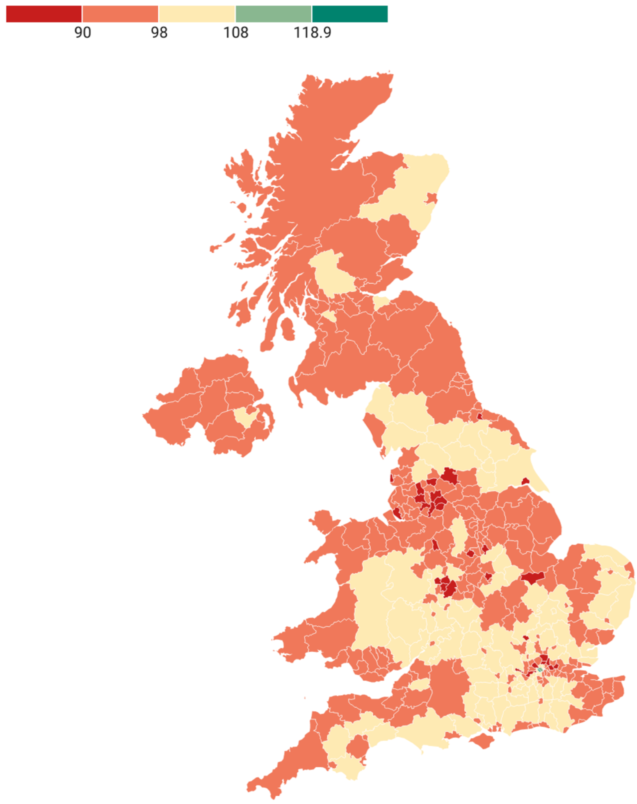


TABLE 3
THE TABLE SHOWS INCREASING CREDIT NEED IN LONDON, THE MIDLANDS AND PARTS OF NORTHERN ENGLAND, BUT DECREASING CREDIT NEED IN THE SOUTH (LOWER SCORES REFLECT HIGHER NEED).

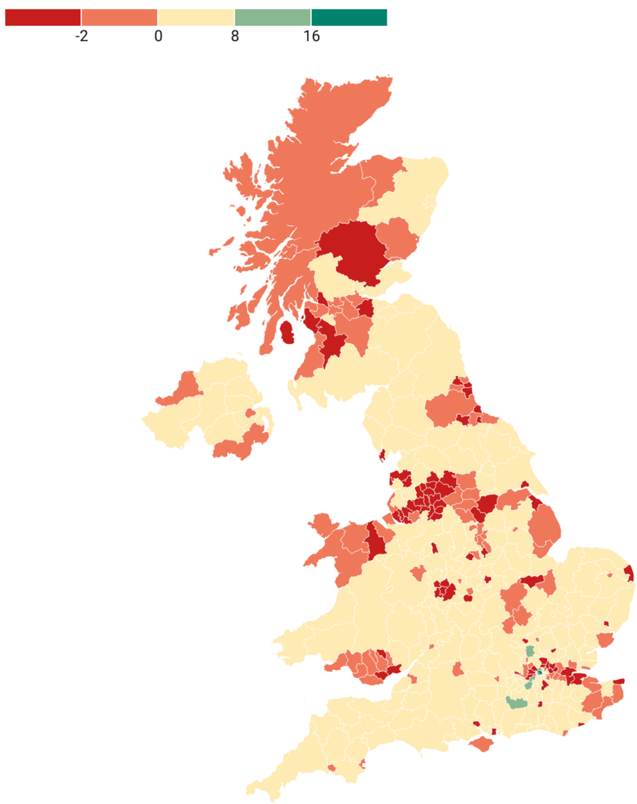
CHANGES IN CREDIT NEED RESULTS 2020-2021			
TOP 10 BIGGEST DECLINES		TOP 10 BIGGEST IMPROVEMENTS	
Newham	-9.49%	Kensington and Chelsea	33.17%
Barking and Dagenham	-9.17%	Westminster	17.42%
Luton	-8.35%	Camden	12.74%
Blackpool	-8.35%	Richmond upon Thames	11.05%
Oldham	-8.09%	Waverley	9.19%
Birmingham	-7.59%	Elmbridge	8.98%
Kingston upon Hull, City of	-7.12%	St Albans	8.33%
Wolverhampton	-6.88%	Mole Valley	7.83%
Middlesbrough	-6.79%	South Oxfordshire	7.82%
Sandwell	-6.54%	Cotswold	7.64%

The notable increases in credit need are concentrated in parts of London, the Midlands and parts of northern England (see Table 1), mostly areas which rank highly on the Index of Multiple Deprivation 2019. Lowell's financial vulnerability index highlighted London as having the largest increase in household financial vulnerability following the onset of Covid, related to the city's dependence on the service sector.[38]

Relatively high levels of over-indebtedness and claimant count have persisted in English post-industrial towns. As a consequence they continue to suffer from relatively high credit need, roughly maintaining their position in the upper third of local authorities' credit need results.

Despite the overall positive impact of government interventions to stop credit need escalating during the pandemic, we can see that areas that were struggling before Covid-19 hit are no better off. Ashfield, a Red Wall seat, had a relatively high proportion of bank searches for credit in this period, at 21.9% of the adult population, compared to the national average of 20.36%. The area has a very low gross domestic household income compared to other parts of the country. Places like Ashfield will need targeted support in order to come out of the pandemic with a strong economy and financially included residents.

FIGURE 4
THE RELATIVE DIFFERENCE OF CREDIT NEED IN 2021 COMPARED TO 2020



38 Braga, B., McKernan, S.M.,and Congdon, W.J. Financial Vulnerability in the United Kingdom: From Brexit to the COVID-19 Pandemic. Lowell Financial, 2021. Available at https://apps.urban.org/features/uk-financial-vulnerability-index/financial-vulnerability-in-the-united-kingdom.pdf

TABLE 4
LOWEST RANKING CREDIT SCORES 2021

2021 INDEX SCORE	LA NAME	CONSUMER CCJS (% OF ADULT POPULATION)	INSOLVENCIES (% OF ADULT POPULATION	CREDIT SCORE	DIFFERENCE IN SCORES
99.43	Kingston upon Hull, City of	1.84%	0.48%	696	3.86
100.32	Blaenau Gwent	1.99%	0.33%	702	4.46
101.22	Blackpool	2.35%	0.50%	709	3.22
101.73	Merthyr Tydfil	1.80%	0.29%	712	3.87
101.93	Middlesbrough	2.65%	0.32%	713	-1.79
102.41	North East Lincolnshire	1.97%	0.42%	717	3.98
103.11	Knowsley	2.07%	0.29%	722	4.68
103.37	Hartlepool	1.82%	0.37%	724	2.66
103.43	Neath Port Talbot	1.52%	0.32%	724	3.00

CREDIT SCORES

Credit scores determine whether someone qualifies for credit services (e.g. loans, mortgage and credit cards). These are determined by credit agencies who use formulas to assess a range of factors relating to an individual's risk of not paying back credit, including the length of credit history, their overall capacity to repay and their recent credit activities. Individuals can receive poor scores for either too much negative credit history (e.g. existing debt) or because their file is too thin (e.g. no previous credit products such as mortgages).[39]

Data for the Index was provided by Experian, and represents the average credit scores of those who checked their score with the company, so may not capture all credit scores in a local authority. The Index is therefore more suited to identifying broad movements than granular changes.

The precise reasons for variations in people's credit scores to some extent remain unknown. To better understand local authority averages in 2021, we ran a regression on multiple factors including voter registration, proportion in rented housing, number of County Court Judgments (CCJs) and individual insolvencies (see Appendix). We found the two indicators which were statistically significant were CCJs and insolvencies, which brought down credit scores.

Credit scores have on average improved by 2.02% in 2021 in comparison to our 2020 Index. Only six local authorities scored 'poor' by Experian's definition (561-720), lower than the previous years. Some of the lowest scoring areas have seen some of the biggest overall improvements: Middlesbrough, while still having one of the lowest overall scores, has seen some of the biggest improvements overall. These improvements could, in part, be a result of the payment holidays, the freezing of credit scores and lockdown interventions.

Nonetheless, the local authorities with the top five lowest credit scores have remained the same from 2019/2020 to 2020/2021 (see Table 4). Local authorities scoring the highest have also remained relatively stable, such as Wokingham and St Albans. This reinforces the interpretation from last year's index that these challenges remain deeply entrenched in local areas, correlating with the Index of Multiple Deprivation (IMD). As previously outlined, there is also a clear geographical North-South divide

39 Hilhorst, S. and Jones, E. The Good Credit Index. Demos, 2019. Available at https://demos.co.uk/wp-content/uploads/2020/07/Good-Credit-Index-2019-v2-2.pdf

TABLE 5
HIGHEST CREDIT SCORES 2021

2021 INDEX SCORE	LA NAME	CONSUMER CCJS (% OF ADULT POPULATION)	INSOLVENCIES (% OF ADULT POPULATION	CREDIT SCORE	2020 INDEX SCORE	DIFFERENCE IN SCORES
125.25	Wokingham	96.27%	18%	877	122.571	3.86
124.86	Richmond upon Thames	91.31%	32%	874	121.429	4.46
124.62	Elmbridge	94.71%	21%	872	121.857	3.22
124.50	Hart	96.41%	16%	872	121.000	3.87
124.48	Waverley	94.08%	21%	871	121.429	-1.79
124.39	St Albans	96.16%	23%	871	121.571	3.98
124.20	Rushcliffe	92.01%	19%	869	121.286	4.68
124.17	Mole Valley	94.94%	20%	869	120.571	2.66
123.83	South Cambridgeshire	95.35%	22%	867	120.571	3.00

between poor credit scores and good, with the South East seeing generally higher scores.

County Court Judgments (CCJs) continue to be an important part of the picture, and their disruption during the pandemic is likely playing an important role in driving improvements. CCJs scores on average are significantly lower than other years - this is likely for multiple reasons, including delays in the system, with small claims taking on average three months longer than before the pandemic. This might explain, in part, why credit scores have been higher this year and could mean that credit scores will suffer as lockdown supports ease. Compared to CCJs, insolvencies have also dropped during the pandemic suggesting that the interventions in the credit market such as additional financial support for individuals has been successful in preventing people becoming insolvent during lockdown.[40]

After Barking and Dagenham, Middlesbrough and Blackpool have some of the highest rates of consumer CCJs as well as some of the lowest credit scores. We found a similar story with insolvencies, with local authorities such as Blackpool and Kingston upon Hull also having relatively high rates.[41]

High credit scores tend to also be places with a small proportion of people in the rented sector and high voter registration rates - while these indicators were not statistically significant, when we regressed them against 2021 data, there is a clear overall correlation that is worth considering for building resilience.

Differences in credit scores

Overall, we can see that though credit scores have improved, areas haven't jumped in rank drastically. Kingston upon Hull is still ranking lowest (696) in our credit score subindex, and Wokingham is still ranking highest (877).

40 The Insolvency Service. Commentary - Individual Insolvency Statistics January to March 2021. GOV.UK, 2021. Available at https://www.gov.uk/government/statistics/individual-insolvency-statistics-january-to-march-2021/commentary-individual-insolvency-statistics-january-to-march-2021

41 Magrini, E. and Sells, T. An uneven recovery? How Covid-debt and Covid-saving will shape post-pandemic cities. Centre for Cities, 2021. Available at https://www.centreforcities.org/wp-content/uploads/2021/06/An-uneven-recovery-how-covid-debt-and-covid-savings-will-shape-post-pandemic-cities.pdf

TABLE 6
AREAS WITH THE HIGHEST AND LOWEST CREDIT SCORES

2019				2020				2021			
LOWEST		HIGHEST		LOWEST		HIGHEST		LOWEST		HIGHEST	
Kingston-upon-Hull	669	Chiltern (Buckinghamshire)	859	Kingston-upon-Hull	679	Wokingham (Berkshire)	864	Kingston upon Hull	696	Wokingham (Berkshire)	877
Blaenau Gwent	671	Wokingham (Berkshire)	858	Blaenau Gwent	681	Chiltern (Buckinghamshire)	862	Blaenau Gwent	702	Richmond-upon-Thames (London)	874
Merthyr Tydfil	685	Elmbridge (Surrey)	853	Blackpool (Lancashire)	693	Richmond-upon-Thames (London)	860	Blackpool (Lancashire)	709	Elmbridge (Surrey)	872
Blackpool (Lancashire)	686	St Albans (Hertfordshire)	853	Merthyr Tydfil	696	Elmbridge (Surrey)	859	Merthyr Tydfil	712	Hart (Hampshire)	872
North East Lincolnshire (Lincolnshire)	689	Waverley (Surrey)	851	Middlesbrough (Middlesbrough)	699	Waverley (Surrey)	859	Middlesbrough (Middlesbrough)	713	Waverley (Surrey)	871
Knowsley (Merseyside)	689	Richmond-upon-Thames (London)	850	Knowsley (Merseyside)	701	St Albans (Hertfordshire)	858	North East Lincolnshire	717	St Albans (Hertfordshire)	871
Rhondda Cynon Taf	700	Rushcliffe (Nottinghamshire)	850	North East Lincolnshire (Lincolnshire)	702	Hart (Hampshire)	857	Knowsley (Merseyside)	722	Rushcliffe (Nottinghamshire)	869
Neath Port Talbot	703	Hart (Hampshire)	847	Neath Port Talbot	707	Rushcliffe (Nottinghamshire)	856	Hartlepool (Durham)	724	Mole Valley (Surrey)	869
Hartlepool (Durham)	705	South Bucks (Buckinghamshire)	846	Rhondda Cynon Taf	711	Mole Valley (Surrey)	855	Neath Port Talbot	724	South Cambridgeshire	867
Wolverhampton	707	Mole Valley (Surrey)	844	Hartlepool (Durham)	711	South Bucks (Buckinghamshire)	854	Burnley	729	Epsom and Ewell	866

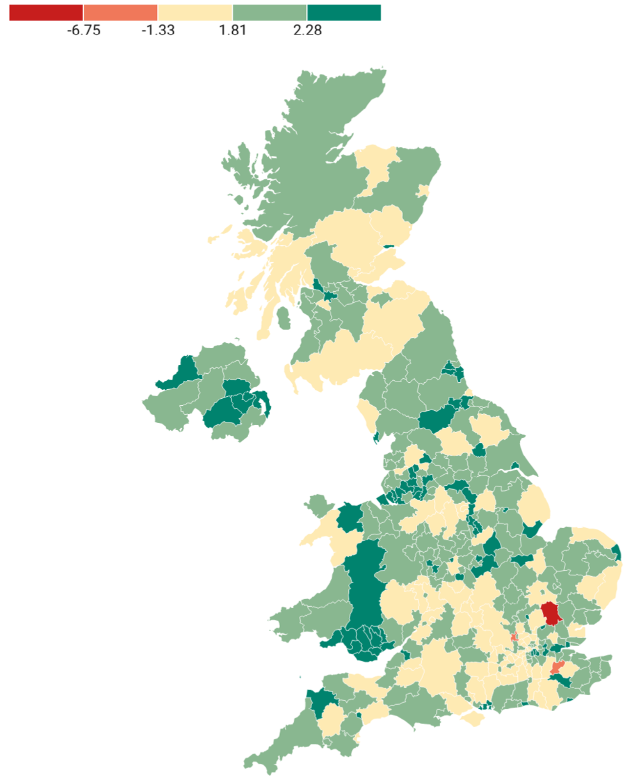
Credit scores have remained high due to several interventions made at the onset of the pandemic, and mortgage holidays and the eviction ban have protected people's housing. Government support initiatives to help people dealing with debt during the pandemic have also prevented some individuals from finding themselves in an even worse situation.

Improved credit scores can be attributed to various streams of job support provided by the HM Treasury, as well the payment freezes and deferrals.

Our data show that local authorities in the South West saw a significant improvement in their credit scores. These LAs also saw a high uptake of the CJRS scheme as the pandemic stifled their tourism-heavy industries (e.g. Devon, Cornwall, Bath and Somerset).[42] We also find that areas in the South East and Midlands regions with higher proportions of their workforce on furlough have seen an increase in their average credit scores.

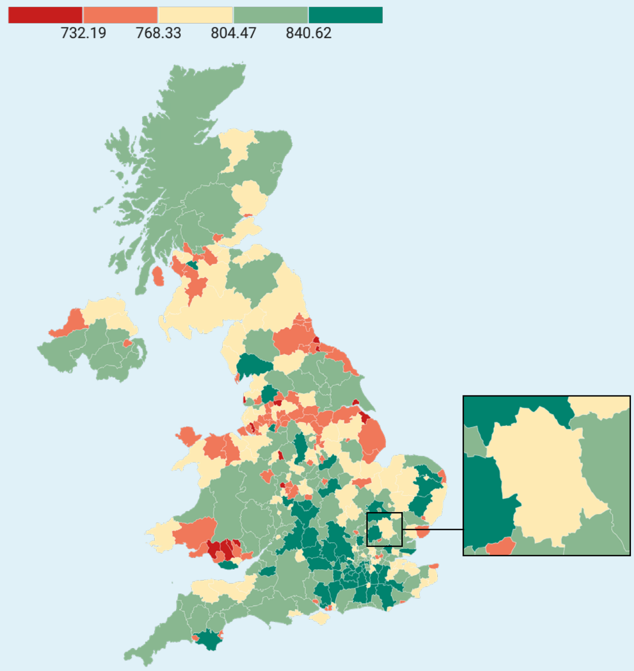
Central London, South Wales, the North West, and Glasgow saw high uptakes of the Self-Employment Income Support Scheme (SEISS).[43] Areas with some of the highest levels of SEISS claimants are Newham, Barking and Dagenham, Harrow and Redbridge.

FIGURE 5
CHANGES IN CREDIT SCORES BY LA 2021



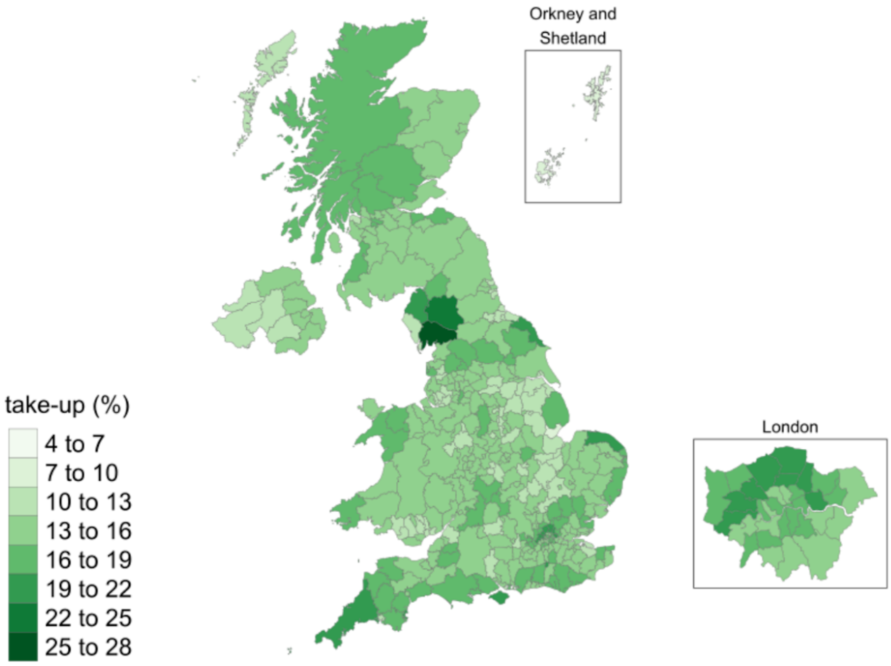
CASE STUDY

Uttlesford is a district in Essex, South East England. The local authority area includes London Stansted Airport, which is largest employer. As Covid-19 hit, airports saw a big drop in traffic with passenger numbers falling to as low as 1-2% of pre-pandemic levels. The airport and many other local businesses dependent on the tourism sector had to furlough significant numbers of staff and in some cases make redundancies. Over half (52%) of the workforce received support through the Self-Employment Income Support Scheme (SEISS). Despite national policy measures to protect credit scores, the reduction in average incomes in Uttlesford resulted in the huge decline in its score on our credit scores subindex, falling from 120.14 in 2020 to 111.55 in 2021. We would expect its score to improve in future years as the tourism sector reboots, but this may take time.



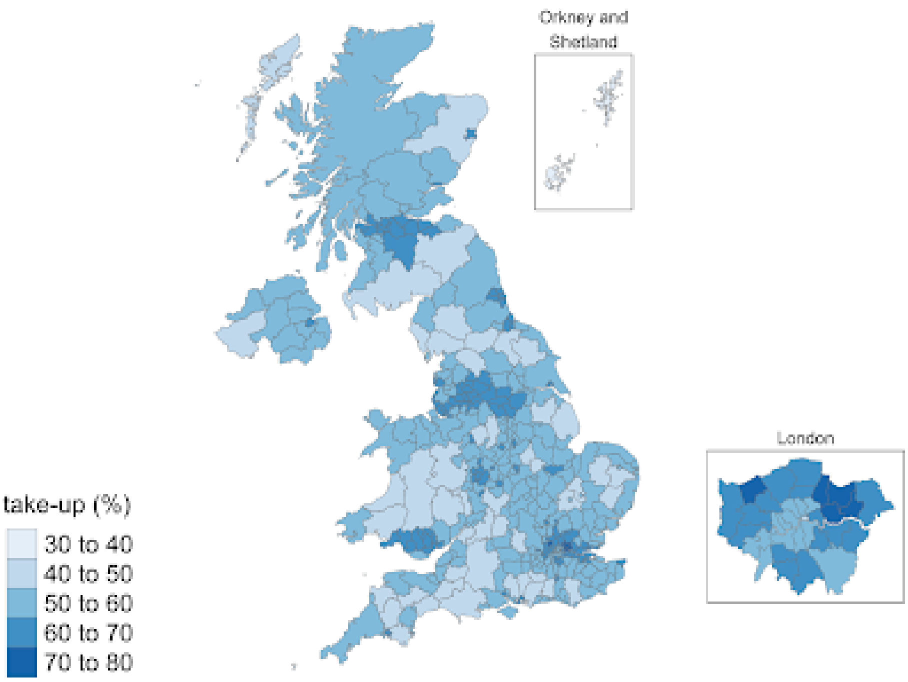
42 ONS. Coronavirus Job Retention Scheme statistics: February 2021. 2021. Available at https://www.gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-february-2021/coronavirus-job-retention-scheme-statistics-february-2021#furloughing-by-local-authority-and-parliamentary-constituency-at-31-december-and-provisional-figures-for-31-january-including-gender-breakdown
43 ONS. Self-Employment Income Support Scheme statistics: July 2021. 2021. Available at https://www.gov.uk/government/statistics/self-employment-income-support-scheme-statistics-july-2021/self-employment-income-support-scheme-statistics-july-2021#self-employment-income-support-scheme-fourth-grant-by-geography

FIGURE 6
EMPLOYMENTS FURLOUGHED AS A PROPORTION OF ELIGIBLE EMPLOYMENTS AT 31 JANUARY 2021, BY LOCAL AUTHORITY



These maps are based on the number of employments eligible for the CJRS extension.
Source: HMRC CJRS and PAYE Real Time Information Data

FIGURE 7
SELF-EMPLOYMENT INCOME SUPPORT SCHEME CLAIMS AS A PROPORTION OF THE POTENTIALLY ELIGIBLE POPULATION, BY LOCAL AUTHORITY



This contains the boundaries for Local Authority districts in the United Kingdom as at December 2020.
Source: Office for National Statistics (ONS) licensed under the Open Government Licence v.3.0. Contains OS data © Crown copyright and database right 2020.

CREDIT AVAILABILITY

The 'credit environment' strand of the Good Credit Index considers the credit options that are available to people living in a particular local authority. It includes an assessment of the quality of those options, based on a representative poll of UK adults (see Appendix B for more information on the poll). Good options are bank branches, credit unions and free ATMs and bad options are payday lenders, pawn shops and rent-to-own shops (Brighthouse).

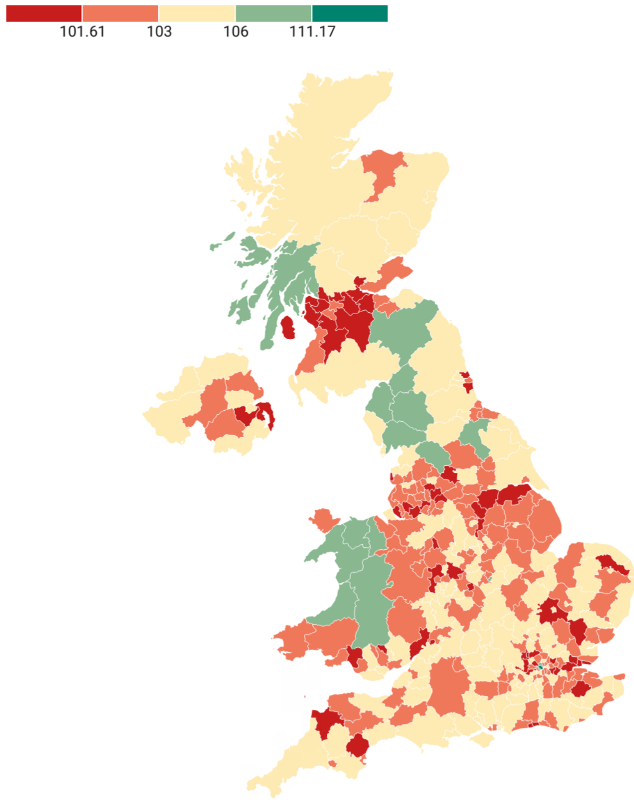
The credit environment maps below show local authorities with healthy credit environments (many good options and few bad ones) in green and those with unhealthy credit environments (many bad options and/or few good ones) in red. Overall we can see that the physical credit environment across the UK has worsened since 2020, by 0.16% on average in 2021 in comparison to 2020. This likely reflects fewer options available during lockdowns. Additionally, we were unable to collect data from the cash point network and credit providers Oakham this year as they had moved online or gone into administration. Therefore, while we make comparisons to the 2020 Index, conclusions are to be made with caution.

In previous years, the regional distribution of credit availability showed a fairly clear North-South division. This year, we see that credit environments have worsened across the board. Areas with some of the worst credit environments can be found in Scotland (e.g. West Dunbartonshire, Inverclyde, East Ayrshire, North Ayrshire - see Figure 8). These can be linked to the health and living environment deprivation, as is the case with local authorities in North West England where we see some of the poorest performances of credit environment (e.g. St Helens and Blackpool).

Pre-pandemic, there was already a steady decrease in the number of payday lenders on the high street following substantial regulatory changes in 2015, and in last year's report we noted several large brands moving their business online instead. These trends have continued, and the closure of non-essential shops during lockdowns will have further reduced access to these forms of credit.

Over the last year, online credit broker searches saw at least a five-fold increase. This may indicate that consumers are more financially savvy and are utilising opportunities to search for credit online although it should be noted that this data covers the whole population, not just those more likely to use high cost, short term credit.[44]

FIGURE 8
CREDIT AVAILABILITY ACROSS LAS



44 This does not necessarily mean they are in need of credit, but that they are scoping their options.

Unaffordable options such as payday lenders and pawnshops are often the only options customers feel are available to them if their credit score is too low to get a bank loan, and if the need for credit is urgent. When payday lenders disappear, it is likely that either another unaffordable credit option, or an empty building, will replace them. This means that those in need have fewer credit options overall, good or bad. Potential borrowers might also go online instead, but there is evidence that low-income borrowers are less likely to use online payday lenders than physical branches. Digital exclusion is also much more prevalent among the financially excluded.[45]

The disappearance of payday lenders from the high street may save financially vulnerable customers from spiralling debt, but it is difficult to access without better data on the use of online sources of HCSTC as an alternative. We hope to explore this aspect in future iterations of the Index.

Though average credit need scores have improved further since 2020, as we emerge from the pandemic, we can expect to see greater need for credit yet with fewer avenues for access.

As noted in previous reports, two types of local authorities tend to appear in the table with the lowest credit environment scores: deprived, often post-industrial towns with a number of bad credit options and few good credit options; and rural areas that have very little credit infrastructure overall - no bad credit options and few good ones. In rural areas there is often less deprivation and lower credit need, so their low environment scores might be viewed as less of a concern.

Also as shown in last year's report, a low credit environment score is not necessarily related to low incomes. While there is a direct correlation between credit environment scores and the IMD, there is no correlation between credit environment scores and the IMD sub-index of income deprivation. Credit environment is directly correlated to health deprivation and living environment deprivation, which implies people living in an area can experience entrenched geographical disadvantages expressed through a lack of good health options, bad housing quality and a bad credit environment, even if incomes or employment rates rise.[46]

TABLE 7
TOP 10 INCREASES IN CREDIT ENVIRONMENT (RELATIVE TO 2020)

Barrow-in-Furness	2.35%
Chesterfield	2.04%
Halton	1.94%
Knowsley	1.80%
Arun	1.70%
North East Derbyshire	1.70%
Eastbourne	1.56%
Newham	1.50%
Wyre Forest	1.42%
Torfaen	1.42%

TABLE 8
TOP 10 DECLINES IN CREDIT ENVIRONMENT (RELATIVE TO 2020)

Westminster	-5.37%
West Dunbartonshire	-4.32%
Fermanagh and Omagh	-3.22%
North Devon	-3.13%
Watford	-2.69%
Hillingdon	-2.67%
Inverclyde	-2.61%
Rushmoor	-2.58%
Hertsmere	-2.41%
Dumfries and Galloway	-2.37%

45 Good Things Foundation. Financial exclusion and digital exclusion often go hand in hand. 2020. Available at https://www.goodthingsfoundation.org/what-we-do/news/financial-exclusion-and-digital-exclusion-often-go-hand-in-hand/ [date accessed 05/08/21]
46 Measured by the Indices of Multiple Deprivation through housing quality, air quality and road traffic accidents

POLICY AND PRACTICE RECOMMENDATIONS

The 'average picture' of credit has perhaps never been less helpful: while overall savings have increased and debt has stayed flat, those at the lower end of the income spectrum or unemployed have had a different experience.

The geography of credit scores and debt maps onto other shocks from the pandemic: the so-called Red Wall has higher levels of debt, and post-industrial and coastal areas have been hit more by lockdowns due to high concentrations of tourism, hospitality and services.

This frozen credit landscape - the market has basically shut down at the beginning of every lockdown - may look like there is less credit need and fewer bad credit options available compared to previous years. However, as the ice thaws we are likely to find a different landscape. Many more people are likely to be in financial difficulty than they were before the pandemic, and the situation is likely to come to a head in September when existing support ends.

To truly build back stronger, everyone needs to be financially included, so they can contribute to and benefit from the local economy. This is especially important in places identified in our Good Credit Index that have been hit hardest by the pandemic. Place-based approaches, addressing entrenched deprivation and credit need rather than treating symptoms, and expanding the affordable credit market should be a priority for local leaders as we seek to build back better.

ROADMAP OUT OF GOVERNMENT SUPPORT SCHEMES

Swift government intervention at the start of the first lockdown, and continuing throughout later restrictions, has been a real lifeline for many and stopped a full-blown crisis in personal finances. The JRS and JSS schemes, eviction ban and payment deferrals have reduced the need for credit and stopped credit scores dropping off a cliff.

Even despite this support, there is still a group of the poorest and most vulnerable households that have accrued more debt and who are likely going to experience further hardship when the furlough scheme and the temporary uplift to Universal Credit end without the right safeguards in place. The Government must not simply pull the plug but set out a roadmap for ending support through furlough, and retain the UC uplift, to avoid the real risk of households being plunged into financial crises.

UNIVERSAL CREDIT CLAIMANTS

The total claimant count has risen significantly during the pandemic, and even with the welcome temporary uplift of £20 per week to UC, families have struggled. The uplift is due to end in September and will likely cause financial difficulty for claimants. The Government should maintain the uplift, and additionally offer UC claimants one-off financial products, such as bonds or a financial resilience grant, to reduce an immediate need for credit and help them build resilience. DWP should also audit all claimants in September to identify people at risk of problem debt and provide dedicated support.

COUNTY COURT JUDGMENTS

CCJs and insolvencies have dropped, suggesting that to some extent the government restrictions have worked. However, the CCJ system is backlogged due to the pandemic, suggesting that the rate of CCJs could increase next year as the backlog is dealt with, as well as the end of payment holidays.

Support is needed for those 'in the queue' or at risk of CCJs. A bespoke and temporary breathing space scheme for people receiving CCJs would provide protection and support for those dealing with Covid debt. This should be linked to the FCA's current work with customers to move from temporary payment deferrals to tailored support.

CREDIT AVAILABILITY

The credit market has experienced significant shocks over the past 18 months - credit search data has dropped at every lockdown as creditors have pooled resources into their current clients and payment deferrals. The physical credit environment is undergoing continued changes, in some cases sped up by the pandemic.

Regulation to end payday lenders is working, but this also means that products are coming off the market without them necessarily being replaced by better credit options. As highlighted in our last report, the Government must implement the No Interest Loans Scheme as a matter of urgency. The beneficiary group - lower-income consumers who would benefit from short-term credit to meet unexpected costs, but who cannot afford to repay interest even from social and community lenders that provide more affordable credit - are likely to have been hardest hit by the pandemic.

We also support the recommendations of the FCA's Woolard Review, which sets out how government bodies can encourage Community Finance Initiatives and Credit Unions to scale and grow through subsidies or development incentives.[47]

The FCA should prioritise implementation of the Woolard Review's proposals to support sustainable alternatives to high-cost credit, looking at subsidies or investment incentives for community finance providers and working with mainstream commercial lenders to overcome barriers to entering this market.

PLACE-BASED APPROACHES

As our Index demonstrates, access to affordable credit is a geographic issue. Addressing entrenched deprivation and credit need at a local level, rather than treating symptoms, is vital to ensuring longer-term change.

Our toolkit (www.goodcreditindex.co.uk/toolkit) for building local financial resilience shares the learning from our South Yorkshire Good Credit Project, setting out practical tips to address financial exclusion, supported by case studies from people and organisations we worked with. The toolkit is aimed at local authority leaders and metro mayors across the UK, who can play a key role in bringing sectors together to tackle exclusion and build resilience among residents.

As part of the project, we also produced targeted guidance for employers, housing associations and local authorities with recommendations for their part in reducing credit need, raising credit scores, and improving the credit environment. These are available at www.goodcreditindex.co.uk/guides.

47 FCA. The Woolard Review - A review of change and innovation in the unsecured credit market. 2021. Available at https://www.fca.org.uk/publication/corporate/woolard-review-report.pdf

APPENDIX A: FULL INDEX

The full index can be found at demos.co.uk/project/good-credit-index-2021/.

APPENDIX B: METHODOLOGICAL APPENDIX

The annual Good Credit Index is intended to offer a geographic look at access to good credit around the UK, utilising both private and public sector administrative and geospatial data. The Good Credit Index is based on three sub-indices measuring different aspects of credit which were found to be important based on focus groups and a literature review.

These three strands are: the credit environment (the physical availability of good and bad credit on the high street); credit scores (the likelihood that citizens would be approved for credit); and credit need (the likely demand for credit, particularly short-term credit).

The overall Good Credit Index was created by summing these three sub-indices, with an equal weighting given to each.

LEVEL OF GRANULARITY

The index is calculated at the local authority district level, which, given the available data, was the most granular level to feasibly examine. Lower level data such as postcode districts would not reflect the fact that when accessing physical services, customers will often travel to their local high street and so regularly access services outside their postcode of residence. The index includes all local authorities across the four nations of the UK, excluding those with a population below 25,000. This means the index excludes the Isles of Scilly, the Orkney and Shetland Islands, the Outer Hebrides and the City of London, for which the index was unreliable due to their small populations.

DATA SOURCES

The Good Credit Index uses a variety of datasets to calculate the sub-indices of credit scores, credit need and credit environment.

These include publicly available national statistics, publicly published data from financial inclusion charities, geospatial data scraped from Open Street Map and credit provider websites, and private data kindly provided to us by credit reference agencies Experian and Equifax.

For the geospatial data, we used public data available from the websites of different credit options for a few specific brands, such as www.everyday-loans.co.uk, which listed branch addresses. In the case of the National Pawnbrokers Association, we developed our own script designed to "scrape" addresses from a tool allowing visitors to "find your local branch" on a map. In each case, these collection methods were designed to impose minimum load on each website - for instance, idle time was added between each request to a site, and the scraping tool was restricted to only accessing pages on a domain which held public address information.

The datasets we received were aggregated to the local authority level. None of the data sets offered information about individuals.

Some data sources are longitudinal and cover an entire year, whereas others are static, showing a snapshot of a particular moment.

CREDIT NEED			
INDICATOR	SOURCE	TIMEFRAME	HOW WE ACCESSED THE DATA
Average credit score by local authority	Experian	Longitudinal, H2 2020	https://www.experian.co.uk/consumer/credit-score-map-uk/
County Court Judgments	Registry Trust, UK	Longitudinal, 2020	
Insolvencies	The Insolvency Service	Longitudinal, 2019	https://www.gov.uk/government/statistics/individual-insolvencies-by-location-age-and-gender-england-and-wales-2019
Voter Registration Rate	ONS	Longitudinal, March 2020	https://www.ons.gov.uk/peoplepopulationandcommunity/elections/electoralregistration/datasets/electoralstatisticsforuk
% Difference in payday loan, fixed term and credit sale debt per person from national average	Equifax	Static, March 2021	
Percentage of adults in the rented sector	Money Advice Service	Longitudinal, 2018	https://www.moneyadviceservice.org.uk/en/corporate/a-picture-of-over-indebtedness-in-the-uk
Credit Card Debt (online cases)	StepChange	2020	StepChange Debt View

CREDIT SCORES			
INDICATOR	SOURCE	TIMEFRAME	HOW WE ACCESSED THE DATA
Gross disposable household income	ONS	Longitudinal, 2018	https://www.ons.gov.uk/economy/regionalaccounts/grossdisposablehouseholdincome/datasets/rossdisposablehouseholdincomebylocalauthoritiesbynuts1region
Claimant count	ONS	Longitudinal, December 2020	https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/datasets/claimantcountbyunitaryandlocalauthorityexperimental
Level of overindebtedness	Money Advice Service	Longitudinal, 2018	http://overindebtednessmap.org/
Bank Searches (% of Adult Population)	Equifax	2021	
HARD Bank Searches (% of Adult Population)	Equifax	2021	
Population	ONS	June 2021	https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/datasets/

CREDIT SCORES			
INDICATOR	SOURCE	TIMEFRAME	HOW WE ACCESSED THE DATA
Number of pawn shops	National Pawnbrokers Association	June 2021	https://www.thenpa.com/Find-A-Pawnbroker.aspx
Payday lenders: Cash Generator	From 'View source on the Cash generator website	June 2021	
Payday lenders: Everyday Loans	Everyday Loans	June 2021	https://www.everyday-loans.co.uk/find-your-local-branch/
Free Cash Points	OpenStreetMap	June 2021	https://download.geofabrik.de/europe.html
Bank branches	OpenStreetMap	June 2021	https://download.geofabrik.de/europe.html

WEIGHTING

Credit score index

The credit need index and credit environment scores all have average scores close to 100 and a similar range of scores. Therefore, credit scores per local authority were divided by 7, in order to create credit score sub-index scores with an average close to 100, and a similar range. It is important for all three sub-indices to have a similar range and approach the same number, so when they are combined to form the aggregate index, they all have an equal impact on the results.

Credit need index

This year, we included two new variables: Bank Search data and Hard Bank Searches. There was a notable increase in our previous indicator, Credit Broker Searches, which was driven by the profile of clients that log these searches with Equifax. As this was not driven by consumer behaviour, we opted for another measure that does. To allow direct comparison of the credit need index in 2019, 2020 and 2021, we have used the same multivariate regression as last year to determine the weightings. The dependent variable was the percentage of the local adult population whose credit file was checked by a bank, and the indicators were the independent variables. This allowed us to assess the relative importance of each indicator in predicting local credit need compared to the other factors. The regression coefficient for each indicator was then used as that indicator's weighting.

We believe that the percentage of the local adult population whose credit file was checked by a bank is a good proxy for the level of credit need in an area as it shows the amount of people making active requests of credit (regardless of whether they are successful, and therefore need rather than ability to access) and banks particularly indicate requests for short-term credit from those who need it urgently. It mimics the changes and volatility in consumer behaviour as it includes both hard and soft searches for credit. Hard bank searches can significantly impact one's credit score if too many are conducted in a short period of time, thus indicating the risk people might be taking in searching for credit.[48]

Credit environment index

We adapted the calculation of the credit environment index from our 2019 model. Some of our data points were significantly bigger as a result of obtaining more comprehensive data on bank branches and credit unions. Upon reflection of its influence, one variable - credit broker searches - was taken out of the calculation, and consequently the calculation of the sub-index was slightly amended. These changes have made the credit environment index more comprehensive and robust. To allow for direct comparison between data from the two points in time, we calculated revised 2019 environment scores, using this new calculation. Each physical credit source (pawnbroker, payday lender, free ATMs and bank branches), within each local authority, was given a quality score. This was based on the findings of a nationally representative sample of 2,008 British adults conducted by Opinium on behalf of Demos in 2019.

48 Experian. Searches on your report: Soft and hard credit checks. 2021. Available at https://www.experian.co.uk/consumer/guides/searches-and-credit-checks.html [date accessed 06/08/21]

Respondents were asked to assign scores between 0 and 10 for each of the physical credit sources, scoring the extent to which they:

- Trust that credit source
- Think their terms and conditions are fair
- Think that source is accessible

For each question, and for each source of credit, we calculated the average score, and accounted for the variation among different demographics. The weighting given to each credit source was the average of these average scores minus five, so that physical credit sources with a score below five were given a negative weighting. This means that areas with access to significant amounts of detrimental credit are placed below areas with no access to any form of physical credit. The number of that type of credit source per 10,000 inhabitants, was multiplied by these weightings, and all these numbers for the different credit sources in one local authority were added together.

Overall Good Credit Index

The overall Good Credit Index was created by combining data from the three sub-indices, giving an equal weight to each. We chose to aggregate the sub-indices with equal weighting because the Good Credit Index is intended to give a sense of the overall financial health of an area, with the subindexes addressing more granular topics.

UPDATES TO THE DATA SOURCES

In 2020, new and more comprehensive data became available, that has led to some changes in the data sources and methodology used for calculating the sub-indices.[49] We followed through with this method for the 2021 index.[50] In May 2021, the Office for National Statistics made various changes to local authority codes and boundaries. Although the 2021 Good Credit Index uses various data sources from before May 2021, it describes the data using the most recent local authority codes and boundaries to avoid losing out on key areas that have been combined since.

This year, we included two new variables: Bank Search data and Hard Bank Searches. There was a notable increase in our previous indicator, Credit Broker Searches, which was driven by the profile of clients that log these searches with Equifax. As this was not driven by consumer behaviour, we opted for another measure that does.

LIMITATIONS

The Good Credit Index is a unique tool that allows us to understand how geography impacts someone's ability to access affordable credit. The broad patterns we see across the UK in the subindices and the aggregate Index provide insight into the geographical dimensions of financial exclusion, and can therefore be used to inform place-based solutions. Comparison with previous indices also offers useful insights into the changes in the credit environment and development of particular local authorities. However, as any analytical tool the Index does have some limitations.

The intention of the Good Credit Index is to give a sense of the overall financial health of an area, so we advise against reading too much into a local authority being placed 133rd versus 134th, and instead focus on the broad patterns and trends that appear in geographic distribution and the similarities and differences across overall higher and lower scoring local authorities.

The average credit scores for the 2021 Good Credit Index were provided by credit reference agency Experian, and represent the average credit scores of those who check their score with Experian. This might not capture all credit scores in a local authority, but provides a useful thinking tool for patterns across time and across the UK.

There are also elements of access to good credit which were not included because of a lack of available data at a local authority level. This includes levels of fraud (which severely affect credit scores), the use of illegal money lenders (which is an indication of serious credit need) and access to credit options online. There is very little data available at a local authority level showing how people use the internet to obtain credit. The physical credit environment is still an important source of credit options for people, especially those who do not have access to the internet, and a useful indicator to understand a particular place's relationship with credit. Future research should aim to focus on the role of the internet in the availability and accessibility of credit.

49 Data on the number of bank branches

50 In particular, the methodology for the credit environment was changed: One variable was taken out of the calculation, and the weightings and formula of the total environment index were changed in order to account for this. This method was used for the revised 2019 and 2020 Good Credit Index.

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