

## CABINET – 14<sup>th</sup> FEBRUARY 2013

### Report of the Head of Neighbourhood Services Lead Member: Councillor David Snartt

#### Part A

#### ITEM 16 CREDIT UNION WORKING GROUP

##### Purpose of Report

To provide an update on the development of Credit Union services and seek approval to develop a three year partnership arrangement with Clockwise Credit Union to develop and expand its services in Charnwood.

##### Recommendations

1. That approval is given to develop a three year partnership arrangement with Clockwise Credit Union to develop and expand its services in Charnwood
2. That the Head of Neighbourhood Services be given delegated authority, in consultation with the Strategic Director of Neighbourhoods and Community Wellbeing and the Lead Member, to negotiate and enter into a three year partnership arrangement within the revenue resources included in the 2013/14 budget onwards
3. That the Head of Neighbourhood Services be given delegated authority to finalise the terms and conditions of the partnership agreement.

##### Reasons

1. To enable Credit Union Services to be expanded in Charnwood
- 2&3. To enable negotiations to be undertaken with Clockwise Credit Union and a partnership arrangement to be entered into that offers a sustainable and co-ordinated solution to the need identified.

##### Policy Justification and Previous Decisions

Cabinet at its meeting on 30<sup>th</sup> August 2012 approved the following recommendations of the Credit Union Working Group;

1. that the principle of providing a partner credit union with restricted revenue funding to enable the expansion of operations in Charnwood be supported;
2. that signposting of credit union services to residents of the Borough via the Council's various channels of communication is enhanced;
3. that, subject to the agreement of recommendations 1 and 2, above, the Council writes out to eligible organisations inviting them to set out their

proposition for the creation of a branch in Loughborough, and other ideas for working with the Council, in accordance with a defined specification and timetable; and

4. that a further report be submitted to Cabinet to provide an update following the conclusion of the Expressions of Interest process.

#### Implementation Timetable including Future Decisions and Scrutiny

It had been anticipated that the recommendations of the Credit Union Working Group could be implemented by 31<sup>st</sup> March 2013. However, there have been considerable developments within the Credit Union sector during the latter half of 2012, as outlined in Part B of the report, which has impacted on progress. Initial discussions have already commenced with Clockwise Credit Union and it is proposed that negotiations take place from February once the outcome of the Department for Work and Pensions (DWP) tender for Credit Union Expansion is announced.

#### Report Implications

The following implications have been identified for this report.

#### Financial Implications

Revenue funding has been identified to support the development of expanded credit union services and has been included in the 2013/14 budget onwards.

#### Risk Management

The risks associated with the decision Cabinet is asked to make and proposed actions to mitigate those risks are set out in the table below.

<i>Risk Identified</i>	<i>Likelihood</i>	<i>Impact</i>	<i>Risk Management Actions Planned</i>
Expansion of credit union services in Charnwood may not prove affordable	3 (possible)	2 (minor)	The recommended process requires that prospective partner credit unions provide a business plan setting out the level of funding support they require; any expansion will be within resources available

Key Decision: No

Background Papers: None

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## Part B

### Overview

1. At its meeting on the 30<sup>th</sup> August 2012, Cabinet agreed the recommendations of the Credit Union Working Group as outlined in Part A of this report. This included the principle of providing a partner credit union with restricted revenue funding to enable the expansion of operations in Charnwood. During 2012 there were considerable developments within the credit union sector that have needed to be taken into consideration. In addition, there have been considerable changes with respect to Welfare Reform and changes within the Council (Housing Landlord services transferring back from Charnwood Neighbourhood Housing to the Council) which have all impacted and needed to be considered in the development of expanded credit union services for Charnwood.
2. Services designed to help residents manage their money better and to access affordable credit has become increasingly important in light of the economic downturn and the welfare reform proposals. Improving the availability of low cost credit in the area is an important way of helping people on lower incomes avoid high cost lenders and loan sharks.

### Illegal Money Lending

3. The Credit Union Working Group identified that the remit of the Group was 'to reduce the number of loan sharks operating in Charnwood Borough.'
4. Illegal money lenders, commonly referred to as loan sharks, are those that operate without a consumer credit license and therefore outside the law. Loan sharks offer unsecured loans at exorbitantly high interest rates, often exploiting the most vulnerable, locking their customers into unaffordable loans that quickly lead to spiraling levels of debt. Failure to pay back these loans can result in blackmail, violence and intimidation. In addition to illegal money lending, legal doorstep lending in the UK is valued at £1.9 billion per year. Doorstep loans are legal loans provided by an individual with a license to trade from the Financial Services Authority (FSA) but are usually offered at extremely high interest levels.
5. The Council's Neighbourhood Management Team in response to this issue are currently undertaking some work with Leicestershire County Council's Rogue Traders Unit and the National Illegal Money Lending Team, who help people to escape the clutches of loan sharks by raising awareness in communities and agencies so people know where to get help, supporting victims of loan sharks helping them access the right advice and support to so they do not fall into the trap again. Areas of Loughborough have been identified as being locations where loan sharks are operating and therefore a package of activity has been put together. This work includes :

- Training sessions, run by the National Illegal Money Lending Team, for front line officers from organisations including CBC, Police, CAB and Children’s Centres aimed at raising awareness of loan shark activity, intelligence gathering and how to encourage reporting.
- A local campaign targeting residents including the Council’s housing publication, Your Homes Matter, newspaper and local community publications, Borough Council and Police websites. Messages were also included on rent arrears letters.
- Posters and flyers have been delivered to the identified hotspot areas and social media was used including Facebook and Twitter messages.
- The local community hubs and their volunteers were also provided with information, resources and advocate training.
- A series of road shows are planned during February and March which will also be providing information and guidance to local residents.

#### Credit Union Legislative Changes

6. Credit Unions are financial co-operatives that are owned and controlled by their members, providing an alternative to banks and building societies. Member savings create a pool of money from which loans may be made to other members, in return members get an annual dividend on their savings, this dividend, by law, may not exceed 8% per annum. Borrowers pay interest on their loans at a rate fixed by law at no more than 2% per month on a receding balance of the loan (there is currently a consultation being undertaken to look at increasing this cap to the sector). By using services of a credit union people are helping to recycle money in their local community. Credit Unions are regulated by the FSA and savings are protected by the Financial Services Compensation Scheme.
7. For a credit union to operate it must have a ‘common bond.’ It is the common bond which binds the members together. Credit unions operate within one of the following common bonds :
  - Live or Work
  - Employment
  - Residential
  - Associational
8. In 2012, changes to the Credit Unions Act 1979 came into force, which will allowed credit unions to:
  - Reach out to more people by extending membership to new groups
  - Provide services to community groups, social enterprises and businesses, not just individuals

- Choose to pay interest on savings, instead of a dividend

Credit unions no longer have to prove that everyone who can join a credit union has something in common, this means, they are able to provide services to different groups of people within one credit union

### East Midlands Consortium of Credit Unions

9. An East Midlands consortium of credit unions was established during 2012, with an aim to develop and deliver a cost effective uniform Credit Union service for the East Midlands and address the challenges associated with welfare reform / universal credits.
10. One of the developments of this consortium was for those Credit Unions involved to agree how and where 'common bonds' were to be extended. This included some of the credit unions involved extending their 'common bond' on either a geographical basis or to include some specific housing associations / providers.
11. Part of the proposals developed by the consortium included them being able to offer a consistent service and a number of banking options for tenants of Registered Social Landlords and Housing Associations / providers, focusing on priority payment of rent and the move from weekly and fortnightly payments to monthly payments.

The product offerings to housing providers included standard membership fees, standard loan and membership applications, pre pay cards, Credit Union current account, Credit Union Budget Account (Jam Jar), access to safe savings plan and access to affordable loans.

12. During this product development presentations and discussions were undertaken with a wide range of housing providers, which included Charnwood Neighbourhood Housing / CBC Housing Landlord Services, regarding becoming part of this universal product offer, with housing providers being asked to either sign up as members by late November 2012 or pledge their support.

### Department for Work and Pensions (DWP) Feasibility Study and Credit Union Expansion Project Tender

#### DWP Credit Union Expansion Project Feasibility Study

13. In May 2012 the DWP released a feasibility study report entitled Credit Union Expansion Project. Research found that a market exists amongst people on lower incomes for locally provided banking, savings deposits and loan services from trusted providers such as credit unions:
  - 1.4million have no transactional bank account at present
  - 4 million incur bank charges
  - Up to 7 million use sources of high cost credit, and
  - More than 60% of the over 4500 people consulted said they would use credit union services if they were available.

14. The Feasibility Study also established that :
- Credit unions could become financially sustainable if they undertook a major programme of business and cultural change and introduced automated systems
  - Credit unions are currently limited to charging interest at 2% per calendar month and this is a barrier to them becoming sustainable
  - There was a need for infrastructure and systems change
  - That a change of this scale was only possible with a significant degree of collaboration within the credit union sector
  - Credit unions should expand, modernise and become financially sustainable
  - Government needs to support that change

#### DWP Credit Union Expansion Project Tender

15. In response to the Feasibility Report the Government committed up to £38 million to support the change to the credit union sector through a tender process. The aim is to support credit unions to provide financial services and loans to 1 million new credit union members on lower incomes by 2019 (minimum 500,000 by March 2015), whilst assisting credit unions to achieve financial sustainability by March 2015.
16. The requirements of the Tender included :
- Need for consortium or partnership approach – minimum of 15 credit unions
  - Integrated and centralised / shared support services
  - Automated decision making
  - Delivery of a suite of products and services
  - Increased access channels to credit union services
17. The Invitation to Tender was issued in September 2012, with a tender return date of 26<sup>th</sup> October, with a contract award late February 2013.

#### Welfare Reform Project Group

18. During the past four months there has been recognition that different departments across the Council were developing a range of different approaches to responding to the implications of Welfare Reform. In response to this a Welfare Reform Project Group has been established to develop an integrated Action Plan delivering the different strands required by the Council and other key partners to respond to welfare reform changes.

The Constitution provides authority for officers to establish project boards, working groups etc. to support areas of work. Officers are currently considering options for establishing a project board or similar body to manage the Council's activity in relation to working with Clockwise and the wider welfare reform / locality agenda.

19. A couple of issues have been identified as critical to addressing as part of this project group :
  - Access to debt advise and money management / skills advise and training
  - Access to affordable credit and other suitable financial services e.g. current and budget accounts to people on low incomes
20. The Council currently has a Strategic Partner relationship with Charnwood Citizens Advise Bureau (CAB) who offer free, confidential, impartial and independent help and advice on a wide range of subjects including debt, benefits, housing, legal, discrimination, employment, immigration, consumer and other problems. Discussions have taken place with Charnwood CAB regarding changes to their service provision (through withdrawal of Legal Services Commission funding which funded the provision of specialist advise in the area of Welfare Benefit law) and the implications of welfare reform so that the group can take this into consideration when pulling together the Action Plan.
21. There is recognition that the development of credit union services in Charnwood will deliver some elements of the Action Plan and the development of these services needs to be joined up across departments to meet both the needs of council tenants and the wider community. Therefore the development of the proposed partnership arrangement with Clockwise Credit Union will include officers from all relevant departments to ensure the right services and products are provided.
22. In addition, there is also recognition, of the fact that there is the potential for a collaboration between a Credit Union and a provider of money management and debt advise services that would enable a wider range of comprehensive services to be provided in a co-ordinated manner, which will be explored as an option.

### Clockwise Credit Union

23. Clockwise Credit Union was established in 2002. Clockwise's 'common bond' is a live and work common bond which covers Leicester, Leicestershire and Rutland.

They currently have over 6800 active adult members with over £2.3 million savings, nearly 800 Young Savers and Child Trust Fund savings accounts with over £200,000 of savings and over 4000 loans granted. They have over 1500 current accounts.

Clockwise currently have permanent branches in Leicester and Melton, with pop up branches operating across the city and county enabling remote access to their services. Clockwise currently operate out of Loughborough on Baxter Gate on one morning per week.

24. Clockwise are the only credit union that has a common bond that covers the Charnwood area and are therefore the only credit union in a position to offer expanded credit union services in the geographical

area within the timescales required. As the only identified eligible organisation that the Council could invite to set out their proposition for working with the Council, this will be undertaken as part of the negotiation process.

25. Clockwise have been a key player in the East Midlands Consortium of Credit Unions and as a result have been part of the development of a universal credit product offer. In addition, they have also extended their common bond to cover Northamptonshire and a number of Housing Associations and providers.
26. Clockwise are also part of consortium bid led by the Association of British Credit Unions Limited (ABCUL) to the DWP Credit Union Expansion Project Tender, which if successful will impact on their Business Plan and local delivery model. If the bid is successful this may bring financial resources to Clockwise for the development of credit union services, to avoid duplication of funding it is proposed to commence negotiations in February once the outcome of the tender is announced.
27. Based on the above, it is proposed that a three year partnership arrangement is negotiated with Clockwise to expand the range of credit union services on offer in Charnwood. This will also involve the potential for this to be a partnership / collaborative approach with a provider of money management / debt advise services. Clockwise are already in discussions with the Charnwood CAB with regard to potential partnership working options. The two organisations are already working in partnership with the Council to administer the Preventing Repossessions Fund, through a Memorandum of Understanding with the Council.