

DERBYSHIRE COUNTY COUNCIL

CABINET

14 April 2015

Report of the Chair of the Improvement and Scrutiny Committee – Resources

REVIEW OF CREDIT UNIONS IN DERBYSHIRE

1. Purpose of the Report

To present Cabinet with the final report of the Scrutiny Review of Credit Unions in Derbyshire

2. Information and Analysis

The Improvement and Scrutiny Committee – Resources has completed a review of Credit Unions in Derbyshire.

A working group of Committee Members was established to conduct the review comprising of Councillors Clive Moesby (Chair), Steve Freeborn, Tony Kemp, Dave Lomax and Steve Marshall-Clarke

The final report is attached and gives details of the research, meetings and evidence gathering which informed the review and helped develop the outcomes and recommendations.

Cabinet is asked to indicate whether it accepts some or all of the review recommendations. If Cabinet is unable to do this at the meeting, it should do so within two months of the Cabinet meeting.

As recommendations are implemented, progress will be monitored by the Improvement and Scrutiny Committee – Resources through an action plan, a template of which is appended to the report. This action plan should be completed and provided to the Committee for information, usually within two months.

3. Considerations

In preparing this report the relevance of the following factors have been considered: financial, legal, prevention of crime and disorder, equality of opportunity, human rights, personnel, environmental, health, property and transport considerations.

4. Key Decision – No

5. Call-in

Is it required that call-in be waived in respect of the decisions proposed in the report? – No

6. Background Papers

Documents held on file by Improvement and Scrutiny Committee review working group and Minutes of Improvement and Scrutiny Committee meetings.

7. RECOMMENDATIONS

- (a) Cabinet considers the report of the Improvement and Scrutiny Committee - Resources on its review of Credit Unions in Derbyshire and receives the recommendations of the Scrutiny Review as set out on pages 27 and 28 of the report.
- (b) Cabinet indicates which of the recommendations it accepts.
- (c) Cabinet notes that, as recommendations are implemented, progress will be monitored by the Improvement and Scrutiny Committee - Resources at strategic intervals through the completed action plan to be provided to the Committee within two months of the date of this report.

Councillor Clive Moesby

Chair of the Improvement and Scrutiny Committee – Resources

Derbyshire County Council Improvement and Scrutiny Committee – Resources



Review of Credit Unions in Derbyshire

Cllr Clive Moesby (Chair)
Cllr Steve Freeborn
Cllr Tony Kemp
Cllr David Lomax
Cllr Steve Marshall- Clarke

Improvement & Scrutiny Officer – Jackie Wardle

19 March 2015

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Eric Thompson	-	2Shires Credit Union
John Wilkins	-	“Money Spider” Credit Union
Steve Ward	-	Illegal Money Lending Team
Lois Race	-	DCC Welfare Rights (Derbyshire Discretionary Fund)
Phil Morris	-	N E Derbyshire Citizens Advice Bureau
Beverley Parker	-	Financial Action & Advice Derbyshire (FAAD)
Maxine Richards	-	John Smedley Company
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Introduction

Cllr Clive Moesby

Chair of Improvement & Scrutiny
– Resources Committee



As Chair of the Improvement and Scrutiny – Resources Committee I was keen for the Committee to undertake a review of the Credit Unions working in Derbyshire. I requested the Committee to carry out this review to support the Council in its work to tackle poverty and financial exclusion. The County Council has included in its priorities, set out in the Council Plan, a number of measures and initiatives to combat poverty. The Council Plan commits to supporting people in hard times and key points in the Plan include;

- *The impact of the recent economic downturn is all too visible in our communities.*
- *Many families are struggling to cope with changes to the welfare system and the rising cost of everyday goods and services.*
- *Financial hardship and uncertainty can lead to stress, ill health and family breakdown. It can also lead to a breakdown in cohesion and tension within communities as the gap between the “haves” and the “have-nots” widens.*
- *We want communities to be thriving places where local people prosper. To make this happen, we need to support those families who need our help in the most difficult of times.*
- *More children in Derbyshire are living in poverty now than they were a few years ago. This is intolerable in the modern age.*
- *Working with our partners we will develop a strategic response to the growing levels of poverty affecting communities in Derbyshire.*
- *Many local people are struggling to manage on the limited resources that they have at their disposal and too many are relying on payday lenders and loan sharks to make ends meet. We will work to ensure that people have access to the help and advice they need through in a range of settings including children’s centres and libraries. We will also work with our partners to promote Credit Unions, through libraries and other services and provide support to families to manage their budgets effectively.*

During this review, the Improvement and Scrutiny – Resources Committee has sought to contribute to the aims and objectives of the Council Plan in supporting people in our communities who are faced with poverty and debt and the impact this has on their lives. We now submit, in this report, outcomes and recommendations which we believe will support and add to the endeavours of the Council in combatting poverty in Derbyshire.

1. Background to the Review

The Improvement and Scrutiny - Resources Committee instigated a review of the Credit Unions in Derbyshire in order to establish how they provide financial support and services to local communities. The Committee is keen to understand how these services contribute to the Council's Anti-Poverty Strategy which aims to support the most disadvantaged people in the County.

The downturn in the UK economy, rising costs of goods and services and recent changes to the welfare system have seen an increase in individuals and families falling into financial crisis. The additional challenge of significant cuts to public sector budgets has impacted on the ability of the County Council and its partners to provide services to the most vulnerable people in the County.

Against this background, there has been a prevalence of more people being attracted to the ubiquitous "pay day lenders" offering easy access to loans and cash advances – but with very high interest rates. For many people their financial problems are exacerbated when they cannot maintain repayments, default and incur penalties and fall into a downward spiral of increasing debt. In some cases people turn in desperation to illicit lenders ("loan sharks") which very often results in illegal methods of debt collection.

The adverse impact on people and their families can be severe, with effects ranging from stress, depression and other mental ill-health problems to relationship breakdown and inability to afford basic necessities such as food and heating. The latter, in extreme circumstances, can lead to physical ill-health problems.

The review working group took account of the Council's **Anti-Poverty Strategy (2014 – 2017)** at the outset of this review. The following information is taken from the Strategy document.

.....*"Poverty and Health*

There is a strong association between poverty and health. Poverty is one of a number of wider determinants, or influences, that contribute to health, wellbeing and illness. Positive health factors – such as economic and food security, good quality social relationships and adequate housing – contribute to the maintenance of health. People living in poverty may live in poorer quality housing compared with others and be less able to access essential services. It also means that in comparison to others, those living in poverty may have less power to protect their health or feel that they have a low status in society. People who live in relative poverty "lack the resources to obtain the types of diet, participate in the activities

or have the living conditions which arewidely encouraged or approved, in societies to which they belong.”

The Anti-Poverty Strategy sets out four Challenges – Increasing Financial Inclusion and Capability; Alleviating Fuel Poverty and Increasing Affordable Warmth; Reducing Child Poverty; Improving Employment Prospects and Skills.

....”Addressing the Challenges

Challenge 1 – Financial Inclusion and capability

Financial inclusion can be defined as everyone having access to appropriate financial products and services in order to manage their money effectively and the knowledge, skills, confidence, understanding and motivation to manage their money well. Households on a low income, particularly lone parents, the long term unemployed or those in receipt of benefits, the long term sick or disabled, lone pensionersand households headed by students or part-time workers have an above average likelihood of being excluded financially.

Financial exclusion can have a devastating effect on individuals and families. It contributes to poverty and social exclusion, can cause mental health issues and family breakdowns. Those who are financially excluded pay more for everyday transactions. Many people who are financially excluded do not have a bank account and without a bank account it costs more to cash a cheque, pay a bill or pay for goods and services – with high cost items such as energy being significantly more expensive. Credit availability is limited and very expensive and often individuals resort to high cost lenders to borrow money. This can often result in spiralling debt.

Progress in tackling financial exclusion requires a twin track approach which addresses insufficient or discriminatory supply as well as improving financial capability among individuals.”

The Anti-Poverty Strategy goes on to give information about the worst wards within the county for financial exclusion. According to the Financial Exclusion Task Force which ranked every ward in England, Derbyshire has thirty two wards in the worst septile for financial exclusion. Of these, eighteen are amongst the worst 10% nationally with Gamesley in High Peak and Shirebrook North West in Bolsover being in the worst 1% nationally.



The Annual Report of the Derbyshire Director of Public Health – 2014

refers in depth to poverty in Derbyshire and the links between poverty and ill-health. It also emphasises the value of Credit Unions in the County and an extract of the report follows;

....."The following statistics provide a snapshot of some key indicators of financial exclusion in the UK:

- 11% of low income households have no bank account.
- Outstanding personal debt stood at £1.44 trillion at the end of February 2014 – a significant proportion of this is likely to be unmanageable debt.
- Average household debt in the UK (excluding mortgages) was £6,018 in February 2014.
- 52% of people are struggling to pay their bills.
- 30% of UK households have no savings at all.
- One property is repossessed every 18 minutes.
- Redundancy can often be the final straw; tipping people who were coping financially, into financial exclusion. An average of 1,282 people were made redundant every day between November 2013 and January 2014.
- Every day 266 people are declared insolvent or bankrupt.
- Citizens Advice Bureaux deal with more than 7,000 debt problems each day.
- 200,000 people living in rural areas in the UK do not have a bank account and have only limited access to services that help people deal with financial exclusion.

- Oxfam estimates that recent welfare reforms have pushed 1.75 million of the UK's poorest households deeper into poverty.

DERBYSHIRE FACTS AND FIGURES:

- There are an estimated 100,000 financially excluded people in Derbyshire.
- Derbyshire Citizens Advice Bureaux are seeing a huge rise in demand for benefits and debt advice stretching their ability to cope. In the last three years debt and benefit related enquiries have increased by 25%.
- There are now 22 food banks in Derbyshire, all of which report an increasing need for emergency food parcels.
- Derbyshire County Council estimates that £112m of means tested benefits goes unclaimed in Derbyshire each year.
- Sheffield Hallam University estimates that welfare reforms will remove £219m a year from the Derbyshire economy

Credit Unions are a community alternative to high street lenders or payday loans. (Case study)

Sue (32) from Brampton, turned to Chesterfield and North East Derbyshire Credit Union when her chronically ill husband stopped receiving sickness benefits. The couple supported their family of five for 13 years on his salary working as a maintenance and repair operative. He had to give up his job when he started to collapse unexpectedly at work and the couple had to rely on benefits to clothe and feed their children. When he was invited to attend a work capability assessment at the Jobcentre, the couple expected to receive a letter informing them of the results of his medical. Sue said: "We didn't know his benefits had been stopped until I went to the bank to pay some bills and there was no money in the account. The Jobcentre said they wrote to us but we didn't receive the letter. We quickly got into arrears with bills and started to receive threatening letters from debt collectors. Just before Christmas the bailiffs turned up at our door demanding payment and I had to give them everything I'd put away for the children's presents on top of what I could borrow from friends. I called up the Credit Union as a last resort and was really pleased they managed to see me within days. They were so supportive and didn't just want to discuss money. When I talked about what was happening I just burst into tears. But they gave me a cup of tea, a box of tissues and even a hug. They told me about their family loans that I could pay back gradually with family allowance. I was so pleased that I didn't have to go to a payday lender and get into even more trouble. I borrowed £500 and am paying back £10 a week, which is affordable."* *Name changed to protect identity".

The **Association of British Credit Unions (ABCUL)** has bid successfully to the Government's (Department of Work and Pensions) Credit Union Expansion Project which was awarded in April 2013. This funding is intended to modernise and extend the Credit Union industry to help more people on low incomes. ABCUL is to deliver the investment project to Credit Unions across the country to ensure Credit Unions are self-sufficient with an aim to increasing Credit Union membership by up to one million new memberships by 2019, giving more people access to banking products, debt advice and affordable loans.

It is against this background that the review of Credit Unions in Derbyshire has investigated the extent to which support, advice and financial services are provided throughout the county and how the County Council can contribute to the development and sustainability of local Credit Unions.



2. Initial Research

There are strong links between poverty and ill-health. The County Council's Anti-Poverty Strategy references numerous research papers which give evidence to support this. In order to direct support to combat poverty in Derbyshire, the Council has allocated funds from the Public Health budget to support services which promote financial inclusion.

The review working group met initially with Julie Hirst, Public Health Principal, to discuss the support provided to local Credit Unions and how the Council could further contribute to the sustainability and growth of Credit Unions in the communities they were most needed.

Julie Hirst is the County Council's lead officer for supporting the work and services of local Credit Unions. She met the working group to give background information on the five Credit Unions currently operating in the County, the challenges they faced and the benefits they offer to local communities.

She also detailed the support the County Council currently provides to the Credit Unions and discussed potential for encouraging better take-up of their services across the County.

It was noted that Public Health funding was provided to Credit Unions and this was considered a logical approach as poverty was a key factor in many ill-health conditions, particularly mental ill-health and associated issues such as poor diet and alcohol and substance misuse. Further details of the financial support provided by the County Council are given in section 3 of this report (page 8).

The meeting with Julie was an opportunity for the working group Members to determine the direction of travel for the review, and identify key "witnesses" to invite to participate in the review.

It was agreed that;

- Additional information would be obtained by the working group to include details on the proposed DCC payroll deduction scheme for Credit Union Membership for County Council employees, relevant Cabinet reports, location and coverage of Credit Union areas and details of other organisations providing similar advice and assistance.
- A working group site visit would be arranged with Manchester Credit Union to one of their High Peak locations to see them in operation and speak to service users.

- All local Credit Unions would be invited to meet with the working group to discuss their work and future development
- Credit Union service users would be consulted to enable the working group Members to get an insight into the value of Credit Unions – and any barriers people face in accessing or using their services.
- Key witnesses from the Illegal Money Lending Team and Derbyshire Welfare Rights, who worked with people in poverty and at risk of using expensive loan services, would be invited to meet with the working group to assess the need for alternative financial support options and to give information on how services should be developed
- Local businesses, Churches and other organisations would be contacted to ascertain the potential for their support for Credit Unions across the County.

3. Derbyshire Credit Unions

The review working group met with representatives of all 5 Credit Unions operating in Derbyshire. Members had the opportunity to discuss the services offered by each Credit Union and explore the potential for the County Council to assist in the sustainable development of Credit Unions across the county.

The first of these meetings was held with the Manchester Credit Union at one of its weekly outreach sessions. Five sessions a week were held in the High Peak area. These were at two locations in Gamesley on Tuesdays and Thursdays, at Buxton and Fairfield on Wednesdays and at Glossop on Thursdays.

Working group Members met with John Haslam, of the Manchester Credit Union, at the session held in the High Peak Borough Council local office at Winster Mews, Gamesley. The meeting enabled Members to see a Credit Union advice session in operation and talk in depth with Mr Haslam about Manchester Credit Union in particular and Credit Unions in general.

Similar discussions were held with representatives of the other four Credit Unions in Derbyshire and it was noted that most of the Derbyshire population now has access to a credit union with five operating across the County, as follows:

- Manchester Credit Union (High Peak) – Christine Moore/John Haslam
- 2Shires Credit Union (Bolsover) – Eric Thompson
- Chesterfield and North East Derbyshire Credit Union – Karen Peck
- Erewash Credit Union (Amber Valley, Erewash and shortly Derbyshire Dales) – Sara Dinsdale
- Money Spider Credit Union (South Derbyshire) John Wilkins

The Derbyshire Dales area does not have a dedicated local Credit Union and at the time of this review Erewash Credit Union was developing a programme of expansion to offer its services to the residents of Derbyshire Dales.

Credit Unions are co-operatives which are owned and run by their members. They are established under a “Common Bond” in that they can offer membership to people who share a link, either through a local area or by an employer, such as the Police service. The Credit Unions in Derbyshire are

based on geographical area common bonds and their members must live or work in their area of coverage.

The key financial services offered by Credit Unions are secure savings and affordable loans. Credit Unions are playing an increasingly important role in supporting people by providing access to affordable credit in times of difficulty and by encouraging saving.



The extent of services offered varies between Credit Unions and depends upon their capacity - which is limited by their size and available resources. In order to develop financial sustainability, Credit Unions need to attract “higher amount” borrowers – that is those people who took out larger loans than most Credit Unions Members. This is because small, short-term loans (those most favoured by Credit Union members who sought to borrow small amounts to help them over a temporary crisis) were not cost effective in terms of interest received against administrative costs. A number of larger longer-term loans (of, say £5,000 up to £15,000) yielded higher returns on interest payments for the Credit Union, against relatively small administration costs. To this end, the Manchester Credit Union is endeavouring to attract more savers and investors who will save and borrow larger amounts.

It is evident that Credit Unions would benefit from longer-term savers and borrowers of larger loans. These would most likely be people who were in employment or who had other regular income and would not normally use Credit Unions. There was scope to promote Credit Unions as a viable financial option to a wider range of potential members and remove the – inaccurate - view that Credit Unions are there just as a last resort for people who had exhausted all other alternatives. A possible solution would be to consider a “re-branding” of Credit Unions as “Community Banks” to help raise their profile more widely.

It is possible for Credit Unions to call themselves ‘Community Banks’ if they get permission from the Financial Conduct Authority and some Credit Unions in other parts of the country have already done this.

The review working group is aware that Public Health funding has been provided to support Credit Unions. This is considered a logical funding source because poverty is considered a causal factor in many ill-health conditions, particularly mental ill-health and associated issues such as alcohol and substance misuse.

3.1 Grant Funding to Credit Unions and Other Support Organisations.

At its meeting on 30 July 2013, the County Council's Cabinet approved a grant fund of £300,000 from the Public Health budget for "instant access" loans managed by Credit Unions. This initiative supported the Authority's commitment to addressing anti-poverty and specifically, financial inclusion.

Following the Cabinet decision, proposed criteria were drawn up to manage the allocation of the fund to the Credit Unions, as follows.

- Need, based on the number of Lower Super Output Areas (LSOA's) within the district(s) area covered by the Credit Union which are within the 20% most deprived, based on the Index of Multiple Deprivation (IMD) Income Deprivation indices.
- Cash in reserves
- Secure revenue funding
- Current and projected membership growth
- Track record of managing loan scheme
- Capacity to manage the loan fund.

An additional £60,000 from the Public Health budget was agreed by Cabinet in October 2013 to provide a one-off revenue grant of 20% of the Fund, being administered by a Credit Union towards additional running costs.

On 15 July 2014, Cabinet approved additional development funding of £117,672 from the Public Health Resource Fund to enable the expansion of Credit Union services to areas of the County that are currently underprovided. The grants contributed to:

- Development for Chesterfield and North East Derbyshire to meet exponential demand
- Development in Derbyshire Dales which had no Credit Union provision

- Website to enable online joining and administration of savings and loans across the County
- Social marketing insight and campaign to inform best approach for reaching and engaging target groups in outreach areas across the County

In March 2015, the Cabinet Member, Health and Communities, approved a grant of £30,000 to Rural Action Derbyshire to support the work of Financial Action and Advice Derbyshire (FAAD) from September 2015 to September 2016. Further details of this organisation and its work are given in section 4 of this report.

3.2 Derbyshire County Council Payslip Contribution Scheme

The County Council has recently developed a payroll deduction facility for its employees to enable them to join and save with a Credit Union through their pay from the Council. This initiative was approved by the Cabinet Member for Health and Communities in September 2014. An extract of the Cabinet Member report is given below;

.....*Benefits for **employees** include:*

- *In joining a Credit Union employees will be supporting a local co-operative that supports its members and encourages financial inclusiveness and financial confidence.*
- *Credit Unions are not only for people on low income – they are often a sound financial choice for everyone.*
- *A payroll deduction offer to employees may encourage them to develop a savings habit.*
- *Some Credit Unions will ‘buy’ out members’ pay day loans so that members can repay their loan to the Credit Union at significantly lower interest rates and without the stress and harassment that many payday lenders subject their customers to.*
- *Credit Union members are eligible to receive an annual dividend on their savings in each year that members vote together for a dividend. Dividends are paid at the same rate for all savers. Where credit unions are paying dividends, they are currently between 1% and 2.5% per year. This is equivalent to easy access cash savings accounts at high street banks.*

- *Money held with a Credit Union is safe. Credit Unions in England, Scotland and Wales are regulated by the Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA). This means Credit Unions have to meet certain standards and the FCA has to approve the members managing the Credit Union. As a member of the Financial Services Compensation Scheme (FSA No 213666) members' deposits are protected up to £85,000 per individual account holder.*

*Benefits for **Credit Unions** include:*

- *Saving by payroll deduction costs the credit union less than saving by direct debit, standing order, over-the-counter payments and cheques.*
- *A payroll deduction offer from a large employer such as Derbyshire County Council has the potential to significantly increase the capital received by a credit union. This enables the credit union to make more loans to people who need them, so increasing safe and affordable borrowing and decreasing the number of local people who resort to payday lenders and loan sharks. There are approximately 30,000 people on the Council's payroll. So, for example, 1% of employees saving £25 a month will generate £90,000 for local credit unions. With an average credit union loan of £400, this would allow an additional 225 loans to be made to individuals and families in need.*
- *Some employees may choose to volunteer at their local credit union, or encourage family and friends to do so.*
- *Payroll deduction will help to ensure the long-term sustainability of our local credit unions.*

*Benefits for **Derbyshire County Council** include:*

- *A new low-cost way of supporting employees in difficult financial times.*
- *Another way in which we can support our local credit unions.*
- *An opportunity to support the local economy by keeping money in circulation locally rather than it being extracted by large national and international financial institutions (for example, Wonga is a US company).*
- *Promoting and protecting health, especially mental health, by reducing the stress and anxiety caused by unaffordable and unsafe debt amongst employees, who may have payday loans, and in the community in general.....*

The scheme was promoted to employees from November 2014 and, as at the January pay day, a total of thirty four employees and Members had joined their local Credit Union and were collectively contributing a total of £1,474 per month to Credit Unions in the County (£17,688 in a full year). Given the lead-in time required to set up a Credit Union membership and initiate monthly contribution payments, this number of participants is encouraging.

The opportunity will also be extended to the 20,000 recipients in the Council's pension scheme in March 2015, which is the first month that they will have received a payslip since Credit Union contributions were agreed and went "live".

3.3 Potential for other local employer payslip contribution schemes

The working group is keen to explore if there is potential amongst other large local employers to offer a similar payslip contribution scheme for their employees. A number of large companies in Derbyshire were contacted to invite them to participate in the review. The John Smedley knitwear company, based at Lea Mills near Cromford, responded and the working group met with Maxine Richards of the company's Human Resources team to discuss the concept further. James Luckraft of the County Council's Human Resources division also attended the meeting to explain the practicalities of the scheme developed by the Council with the local Credit Unions. The meeting outcome showed that there is potential for local companies to assist and encourage their employees to join Credit Unions. Whilst they may not be able to provide extensive administrative resources to operate a scheme, it was likely that most companies would be able to host a Credit Union event where employees could learn more about the process and sign up to membership with pay slip contributions managed by the company. Ms. Richards considered that this could be a possible approach for her company and she undertook to explore this further with the company managers.

At the time of this report, the South Yorkshire branch of the John Smedley company was transferring its wage payments from a weekly to a monthly system. They had taken this opportunity to look into a pay slip savings contribution scheme and, with the help of the Improvement and Scrutiny Officer, had contacted the Doncaster Credit Union with a view to developing this. The local Lea Mills branch of the company was proposing to consider developing a similar facility later in the year. The company has undertaken to let the Improvement and Scrutiny Committee know how they progress.

3.4 Use of Derbyshire Library premises and Countering Advertising by Pay Day Loan Companies

The working group is aware that the County Council is providing support to Credit Unions at some libraries. In order to gather more information, Members met with Martyn Shaw, Library Services Development Manager. Martyn informed Members that an offer had been made to Derbyshire Credit Unions to use facilities at libraries in order to help provide their services to local people. The first library to facilitate the provision of Credit Union services was Bolsover, where the 2Shires Credit Union operates. The system is currently working well and there are plans to expand the service to Whitwell Library. It was noted that not every library was suitable for Credit Union use as there is a need for Credit Unions to have a private room (for confidentiality) and facilities to secure small amounts of cash whilst the Credit Union was working on the premises.

There is potential for the provision of Credit Union services to be extended to other library sites and this is already in place at Swadlincote, with further potential at Long Eaton, subject to confidentiality and security requirements being met. Even where there is not scope for a full Credit Union service to be offered at a local library, promotional material such as leaflets and posters is displayed at many other libraries across the County.

The County Council has introduced a blocking system for all of its computers (including those accessible for public use in libraries). If anyone searches the internet for the websites of the top Pay Day lender companies, the system diverts the search away from these high interest products, gives an explanation why and re-directs the searcher to the local Credit Unions (see screenshot on next page). This initiative was approved by the Cabinet Member for Health and Communities in November 2013, with a contribution of £1,000 from the Council's Transformation Service budget to provide the necessary ICT work.



Alternatives to payday loans

If you're on a low income, receiving welfare benefits, or have been turned down for a loan by a high street bank you may have thought of taking out a payday loan or considering other high-risk options such as loan sharks.

Credit Unions can offer a better alternative with loans at much lower interest rates. They are financial co-operatives owned and controlled by their members. They offer savings and great value loans plus they are local, ethical and know what their members want.

(from DCC computer - payday lender search result pages)

4. Other Support Organisations

The review gathered information and evidence from a number of other organisations around the County who provided support and advice to people facing financial difficulties, poverty or financial exclusion. Meetings were held with the regional Illegal Money Lending Team, Derbyshire Welfare Rights (Derbyshire Discretionary Fund), Citizen's Advice Bureau (CAB) and Financial Action & Advice Derbyshire (FAAD). The information and evidence gained at these discussions underpins that already obtained by the review working group in respect of the need to maintain and develop support for financially disadvantaged individuals and families. It also gave an opportunity to learn more about the range of services and support available throughout the County.

The issue of the *wider promotion of Credit Union services* is a commonly agreed theme amongst the organisations consulted in this review.

Consistency of service availability to all communities across the County from local Credit Unions would help considerably in ensuring everyone who needed help has access to similar levels of support.

Other key findings are as follows;

- **Illegal Money Lending Team**

This is a national organisation and Steve Ward from the Midlands Area Team (which included Derbyshire), explained the Team's remit. They work with many partner agencies including, Citizen Advice Bureaux (their key partner) local authorities and Police to discourage people from using illegal money lenders and loan sharks and to ensure the prosecution of illegal lenders. Pivotal to their work is promoting the use of reputable organisations, particularly Credit Unions.

Illicit loan sharks usually work "underground" promoted by word of mouth information passed amongst friends in a local community. Credit Unions must compete against this by better promotion of their own services to generate more widespread take-up and the Credit Unions who do best at this are those with a High Street presence.

There are some people who even the Credit Unions cannot support (eg those whose credit ratings are too poor to risk the Credit Unions offering a loan) and they were usually referred to emergency support such as the Derbyshire Discretionary Fund.

- **Derbyshire Discretionary Fund (DDF)**

Lois Race is employed by Derbyshire County Council in the Welfare Rights Team. The Council administers the DDF which provides two forms of grant payments – Exceptional Pressure Grants and Emergency Cash Payments which broadly mirror the grants and loans previously delivered by the Department of Work and Pensions (DWP).

Funding of £1.5m, plus £300,000 for administration costs, per year for two years was transferred from the DWP scheme to provide the DDF in Derbyshire. This funding is due to end in March 2015, although the decision is being challenged by Child Poverty Action Group as the funding had ceased without the promised review of the system. As a result of this challenge funding from central Government was now being reviewed, but the current proposal was that the DDF grant would be included in the existing Local Authority Financial Settlement – with no requirement to ring-fence the money for the specific Discretionary Fund purpose. The Derbyshire Fund had £700,000 from previous years which the Council had held in reserve towards funding 2015/2016.

The DDF routinely signposts clients to local Credit Unions if they are not eligible for support from the Fund. This is often because they are not receiving the required “qualifying benefits”.

A model was being developed with local Credit Unions through which loans to clients (who wouldn’t normally be considered by Credit Unions) would be underwritten by the DDF. Councillor Rob Davison (Deputy Cabinet Member – Adult Social Care) was supporting this work. If this model is introduced it will have to be available County-wide with all Credit Unions participating in the scheme.

The DDF provides one-off payments to people suffering unanticipated crisis, for example, extreme weather conditions damaging homes and possessions. It would be helpful if the County Council Emergency Planning Team and other Emergency Services signposted the people they helped in such emergencies to the DDF.

Domestic Violence/Abuse support groups regularly direct their clients to the DDF for help in moving out of dangerous situations.

- **Citizens’ Advice Bureaux (CAB)**

Phil Morris of the NE Derbyshire Citizen’s Advice Bureau informed the working group that most of their work is around money and debt. They also work closely with partners (including Illegal Money Lending Team, Derbyshire

Discretionary Fund and Financial Action & Advice Derbyshire and Credit Unions). Joint working is important as there are too many gaps for people to fall through and access to a variety of support organisations is crucial in getting people the support they need.

The amount of debt people accumulate is soaring – previously a debt of £5,000 was considered high, now many people owe amounts of around £70,000 - £80,000 and people are frightened of their spiralling debts. CABs work to set procedures and their debt workers are qualified debt advisors and specifically trained in this field.

People suffer fuel poverty (for energy bills) and food poverty, but there is also a growing trend in “funeral poverty” where they have no funds to cover the cost of funeral expenses.

On introducing the new Universal Credit initiative, the Government has referred to “debt advice” and “financial advice”. The former is to help people who are already in a difficult situation – the latter is to plan for the future to avoid debt problems and CABs are able to provide both these services – or signpost clients to other groups who can help them.

- **Financial Action and Advice Derbyshire (FAAD)**

The working group met with Bev Parker of FAAD to discuss the work of that organisation. FAAD worked closely with the County’s Credit Unions. All were members of FAAD and both Erewash and the 2Shires Credit Unions were represented on FAAD’s steering group.

FAAD was a network of organisations, including Credit Unions, housing providers, local authorities, advice and debt agencies, food banks and voluntary services. The aim of FAAD is to take action and provide advice to ensure that everyone in Derbyshire has enough money to live on. This is achieved through campaigns, training people and supporting and helping the most vulnerable people. The organisation works to address financial exclusion, where people do not have access to appropriate financial services and products or lack the knowledge, skills, confidence and motivation to manage their money effectively.

A three-pronged approach is used by FAAD to tackle financial exclusion;

- Improve access to financial products by increasing participation in Credit Unions
- Improve financial capability and numeracy skills through training and education

- Improve financial resilience by helping people to maximise their income, promoting a saving and insurance culture, and by providing access to good quality advice.

FAAD particularly supported the continuation of the DDF to protect the most vulnerable people, especially those who may face reduced incomes on the introduction of the Universal Credit system.

• **Derby Diocese**

The review established that churches are increasingly depositing money from their reserves to local Credit Unions. A representative of the review working group (Councillor Freeborn) and the Improvement and Scrutiny Officer met with staff of the Derby Diocese to discuss the work the Diocese was undertaking to support Credit Union organisations in Derbyshire. They also attended a Credit Union seminar held by the Diocese in February 2015 which offered the opportunity to see how the services of Credit Unions in mid and south Derbyshire were being promoted by the Church.

The Diocese was working to develop links with all Credit Unions in the County and would like to see *uniformity in the services available to people across the County*.

There was also a desire to encourage financial prudence from a young age. The Diocese representatives directed the review working group to the publication "To Your Credit" which had been produced by the Archbishop of Canterbury with partners including the Children's Society. The publication highlights the need for primary school children to learn about money management and the importance of saving. A paper by Matthew Reed, Chief Executive of the Children's Society, which sets out the key points of the publication, is given below;

"Children of all ages are being bombarded from every direction with messages enticing them to acquire everything, from the latest gadget to the must-have toy.

As increasingly younger children are making decisions about money, it is critical that primary schools teach the realities of managing on a budget. Children of all ages need to understand how easy it is to get into problem debt and the importance of saving.

That is why we worked closely with the Archbishop's Task Group on Responsible Credit and Savings, the [Association of British Credit Unions](#)

[Limited](#), and [Young Enterprise](#) to produce the evidence report '[Supporting Young Savers: The case for savings clubs in schools](#)'.

It is vital that the children of today become savers – not just tomorrow, but now. This is crucial to their learning about how to manage money and to protect them from getting into problem debt when they are adults.

*Day-in and day-out, in our frontline work in our services, we see the devastating effect that coping with problem debt has on families up and down the country. **Two and a half million children** live in families with problem debt. Many are having to cut back on essentials like food, clothing or heating for their children in order to keep up repayments. We know from our work with the [Stepchange Debt Charity](#) that children are suffering worry and anxiety, being bullied and going without the basics because their families are trapped in debt.*

It is vital that children get skills to equip them with the financial understanding they need to avoid being pushed into problem debt.

*As 'Supporting Young Savers' reveals, over half – **58%** – of children have bought something online before they were 12. Nearly **three-quarters** of 15-year-olds with a bank account have a debit card. Children of all ages are aware of advertising and its power. **More than half** of children aged 10 to 17 said they saw advertising for loans 'often' or 'all the time'.*

*Huge numbers of parents and **94%** of teachers said they felt it was important that children should learn about how to manage money. It is a welcome step that the Government has made financial education a requirement in the secondary schools' curriculum – but this needs to go much further. The Government needs to take action to make sure that children get a sound financial education starting early in primary school and carrying on that education right the way through to adulthood. Savings clubs are central to achieving this.*

Already some primary schools have savings clubs. By providing practical experience of money management to complement financial education in class, these are a great way to improve children's understanding of money. 'Supporting Young Savers' shows that the most effective savings clubs in schools tend to have the following features: A firm partnership with a local credit union; a 'school bank' from which children can make deposits and withdrawals; and integration between the practical experiences gained in saving clubs with the wider financial curriculum.

Savings clubs are a great way to improve children's understanding of money. By promoting the further development of savings clubs in primary schools, the

Government can make sure that children get the financial foundation they need from the early age at which they start making financial choices”.

By Matthew Reed, Chief Executive of [The Children's Society](#)

This was an area where the County Council could have particular influence through its education and young people's services including the Youth Council. There was also potential to offer Credit Union membership to children who are cared for by the County Council's Corporate Parenting responsibility. Children in the care of the County Council already had financial savings in the form of ISAs but this review would recommend that the potential of offering the option of Credit Union membership should also be considered by the Strategic Director of Children and Younger Adults.



- **Lincoln City Council**

At a meeting of the East Midlands Councils' Scrutiny Network, the Chair of the Improvement and Scrutiny Committee - Resources and the Improvement and Scrutiny Officer learned of a scheme adopted by Lincoln City Council where new council tenants were provided (by the Council) with a Credit Union account with an incentivised £10 deposit to encourage saving. This review will seek to encourage Social Housing providers in Derbyshire to consider adopting a similar scheme for their new tenants.

5. Service Users

Having compiled evidence from the numerous sources detailed in previous sections of this report, the review also consulted with Credit Union service users to ascertain their opinion of the services they receive.

With the help of the five Credit Unions a questionnaire has been circulated to their clients. In order to allow sufficient time for a satisfactory number of responses to be returned, the survey is still “live” and the results will be analysed in full shortly. However, the initial responses from the survey are as follows;

No. of replies	Chesterfield/NE Derbyshire	51
	Manchester (High Peak area)	30
	2Shires (Bolsover area)	27
	Erewash	25
	Money Spider (S Derbyshire)	9
	Completed but Credit Union area not stated	13
Total		155
Suggestions for improved services	A current account, including on-line banking, standing orders etc	2Shires
	Current account (suggested by 2 respondents)	2Shires
	Mortgages	2Shires
	Shopping cards	2Shires
	Adult accounts at 16 years old – instead of 18 (embarrassing having a little pay book)	2Shires
	Better account access (Eg online)	MoneySpider

The suggestions made by the respondents, and other outcomes from the survey, will be shared with the Credit Unions.

It should be noted that a social marketing research project is currently being undertaken by the Council’s Public Health Division. This will consult with people who *don’t* currently use Credit Unions and the results will be published – and shared with this Committee - later this summer (August 2015).

6. Review Conclusions

- 6.1 There is compelling evidence for the need for a thriving and sustainable Credit Union service across the County of Derbyshire. The support already provided by the County Council to local Credit Unions is commended and endorsed. As well as direct grant funding, the County Council's pay slip contribution scheme initiated in November 2015, the use of library premises for Credit Union outreach sessions and the blocking of websites of Pay Day lending companies from Council computers are particularly welcomed. Other employers in the County should be encouraged to introduce payslip contribution schemes – offering benefits to the employers and employees as well as their local Credit Unions.
- 6.2 The value placed on Credit Union services, both by their partner organisations and their clients, is readily apparent. This emphasises the need for them to continue and develop the services they provide. The review will make a number of recommendations which will support the County Council and their other partners in continuing to promote the sustainability of Credit Unions.
- 6.3 There are a number of areas where Credit Unions could make improvements themselves;
- Address the need to provide consistency in the extent of services across the County. *It is accepted that this is dependent upon the size, capacity and resources of the Credit Unions and this does vary. However, some thought should be given to the potential of joining up some resources and expertise so that more people can access similar services irrespective of where they live or work.*
 - Develop a stronger “brand” image with consideration given to promoting “community banking” services to attract a wider customer base. *It is recognised that there are some issues around the use of the term “bank” in any title or promotion but there is evidence to suggest this is surmountable.*
 - Adopt a pro-active approach to promoting savings and lending facilities to a wider audience. *Promotional campaigns are costly but a collective, countywide approach should be achievable and this review will recommend that the County Council supports this where possible.*
- 6.4 The encouragement of children and young people to develop financial awareness and responsibility from an early age is considered to be

extremely important. Already, Credit Unions have young savers amongst their membership and some have worked with their local schools to help set up saving scheme memberships. The County Council can provide considerable support in this respect through schools and their governing bodies and the Derbyshire Youth Council. Consideration should be given to developing joint initiatives, locally, between Credit Unions and the organisations supporting children and adolescents. The County Council has potential to help through its educational services and young people's services, particularly for those children who are in the care of the Council's Corporate Parenting function. An early understanding of financial prudence will help young people avoid the pitfalls of debt in later life – and the lessons they learn may be shared with their families and friends.

- 6.5 The Council's Adult Care Department - which provide services and support to the most vulnerable people in the community – should ensure that their clients are signposted to appropriate organisations for support when necessary. Frontline staff working with clients should be made aware of the Council's campaign to prevent people using expensive or illegal lending sources and, alternatively, seek support and advice from Credit Unions and their partners.

7. Considerations

Financial and Health considerations are set out in this report.

The relevance of the following factors has also been considered in preparing this report; Human Relations, Human Rights, Prevention of Crime and Disorder, Equality and Diversity, Property and Transport.

8. Recommendations.

- 8.1 The Improvement and Scrutiny – Resources Committee endorses the initiatives already developed by the County Council and its partners to support Credit Unions in Derbyshire.
- 8.2 The Council's Pay Slip Contribution scheme is promoted to other local public sector organisation and private companies with a view to encouraging them to introduce similar schemes for their own employees.
- 8.3 Local groups and organisations (such as sport clubs) be encouraged to use Credit Unions to hold their financial accounts.
- 8.4 Local Social Housing providers are encouraged to promote the services of Credit Unions to their new tenants as part of their tenancy "starter packs" and they be requested to consider the introduction of an incentivised scheme similar to that provided by Lincoln City Council.
- 8.5 The Council's Libraries continues to offer accommodation in local libraries for Credit Union outreach sessions and expand these facilities to other parts of the County wherever possible.
- 8.6
 - 8.6.1 Credit Union membership is encouraged amongst young people by the County Council through its Primary and Secondary Education services and other support services to young people, including the Derbyshire Youth Council.
 - 8.6.2 The County Council considers providing a Credit Union savings account facility to children in the care of the Council's Corporate Parenting responsibility.
 - 8.6.3 The Council works in partnership with the Derby Diocese in respect of their programme to develop Credit Union membership for children.
- 8.7 The five Credit Unions operating in Derbyshire are asked collectively to consider ways in which to provide parity of service by the extension of facilities where necessary and the development of a "universal package" provided to all areas of the County.
- 8.8 The five Credit Unions operating in Derbyshire are asked to consider the potential for re-branding their organisations to promote themselves as "community banks".

- 8.9 The Council help increase public awareness of local Credit Unions, and the other support organisations contributing to this review, through mechanisms such as signposting clients to Credit Unions, regular promotion on the Council's website and other publications.
- 8.10 The County Council hosts a joint conference of Credit Unions, their partners and other stakeholders with a view to consolidating the provision of Credit Union services in the County under a "Derbyshire branded" format."
- 8.11 The Council's frontline staff, working with individual clients and families, be made aware of the Council's campaign to prevent people using expensive or illegal lending sources and, alternatively, seek support and advice from Credit Unions and their partners. Staff should be advised to direct their clients to these organisations when appropriate.
- 8.12 The Council's Emergency Planning Team, and other local Emergency Services, direct people who are suffering hardship due to an unforeseen emergency, such as fire or flood, to the DDFund for emergency relief.



I & S Committee - Resources

Review of Credit Unions in Derbyshire – 14 April 2015

Recommendations Monitoring Plan

Rec No.	Recommendation Wording	Implementation (Y/N)	Responsible Officer (Strategic Director or their nominated officer)	Progress report to Committee	Action taken
8.1	The Improvement and Scrutiny – Resources Committee endorses the initiatives already developed by the County Council and its partners to support Credit Unions in Derbyshire.		N/A		
8.2	The Council's Pay Slip Contribution scheme is promoted to other local public sector organisations and private companies with a view to encouraging them to introduce similar schemes for their own employees.				
8.3	Local groups and organisations (such as sport clubs) be encouraged to use Credit Unions to hold their financial accounts.				
8.4	Local Social Housing providers are encouraged to promote the services of Credit Unions to their new tenants as part of their tenancy "starter packs" and they be requested to consider the				

	introduction of an incentivised scheme similar to that provided by Lincoln City Council.				
8.5	The Council's Libraries and Heritage division continues to offer accommodation in local libraries for Credit Union outreach sessions and expand these facilities to other parts of the county wherever possible.				
8.6	<p>8.6.1 - Credit Union membership is encouraged amongst young people by the County Council through its Primary and Secondary Education services and other support services to young people, including the Derbyshire Youth Council</p> <p>8.6.2 - The County Council considers providing a Credit Union savings account facility to children in the care of the Council's Corporate Parenting responsibility.</p> <p>8.6.3 - The Council works in partnership with the Derby Diocese in respect of their programme to develop Credit Union membership for children.</p>				
8.7	The five Credit Unions operating in Derbyshire are asked collectively to consider ways in which to provide parity of service by the extension of facilities				

	where necessary and the development of a “universal package” provided to all areas of the county.				
8.8	The five Credit Unions operating in Derbyshire are asked to consider the potential for re-branding their organisations to promote themselves as “community banks”.				
8.9	The Council help increase public awareness of local Credit Unions, and the other support organisations contributing to this review, through mechanisms such as signposting clients to Credit Unions, regular promotion on the Council’s website and other publications.				
8.10	The County Council hosts a joint conference of Credit Unions, their partners and other stakeholders with a view to facilitating the provision of Credit Union services in the county under a “Derbyshire branded” format.”				
8.11	The Council’s frontline staff, working with individual clients and families, be made aware of the Council’s campaign to prevent people using expensive or illegal lending sources and, alternatively, seek support and advice from Credit Unions and their partners. Staff should be advised to direct their clients to these organisations when appropriate.				
8.12	The Council’s Emergency Planning				

	team, and other local Emergency Services, direct people who are suffering hardship due to an unforeseen emergency, such as fire or flood, to the Derbyshire Discretionary Fund for emergency relief.				
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