

**DERBYSHIRE COUNTY COUNCIL
IMPROVEMENT AND SCRUTINY COMMITTEE – RESOURCES**

18 December 2014

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

Review of Credit Unions – Progress report

1. Purpose of the Report

To inform Members of the progress made by the working group of the review of Credit Unions

2. Information

This Committee considered a progress report at its meeting on 25 September 2014 which set out the initial research and findings of the review working group. This included details of grant awards from the County Council to Credit Unions across the county – to provide loans to local people and contribute towards the administration costs of the Credit Unions. The working group had also met with Julie Hirst of the Council's Public Health team who was the officer responsible for coordinating support for local Credit Unions.

Subsequently, the working group has made a site visit to observe an outreach session of the Manchester Credit Union in Gamesley and has met with representatives of the regional Illegal Money Lending Team, NE Derbyshire Citizens Advice Bureau, Financial Action and Advice Derbyshire (FAAD) and the County Council's Welfare Rights team. The outcomes of these visits and discussions are detailed below;

2.1 Manchester Credit Union Outreach Session, Gamesley

Cllrs Marshall-Clark and Lomax and the Improvement and Scrutiny Officer met with John Haslam, Customer Services Manager with Manchester Credit Union, at the outreach session at Gamesley on 14 October. Located in the High Peak Borough Council Area Housing Office, the session is at one of the 5 locations in the High Peak area.

After viewing the interview room used by the Credit Union at the Housing Office and meeting the session worker, the Members discussed the service in detail with John Haslam.

Manchester Credit Union started as Beswick and Openshaw Credit Union in 1991 and was known as East Manchester Credit Union until February 2007. It

now covers the larger Manchester area and High Peak. As with all other Credit Unions, the Manchester Credit Union's members have a "Common Bond" in that they live or work in the area it covers. Not all Credit Unions have geographical Common Bonds. There are, for example, those run by and for people who work for a particular organisation (such as the Police Service).

The biggest issue faced by Credit Unions is that of sustainability. In order to remain financially viable they need to ensure their financial operations are sustainable by attracting investment and making larger loans as well as providing small, short term loans. The latter (for example a loan of £50 - £100 over a short period) actually creates a loss for a Credit Union and, whilst they are not-for-profit organisations, they are not charities and do need to create an income to survive. Manchester Credit Union had, in the past, taken over other local Credit Unions which had been struggling to ensure their continued financial viability.

To ensure their stability, Credit Unions need to attract middle-income investors and - more importantly - borrowers. They are able to offer loans up to £15,000 and larger loans bring in more income, through interest, which enables the Credit Unions to continue to provide smaller (loss making) loans to people who need help in the short term. An important element in ensuring Credit Unions remain viable and sustain their activities is therefore to expand their services to a wider and more affluent population.

It was acknowledged that the initiative of Derbyshire County Council to introduce a Payslip Contribution scheme for all its employees and Members was exactly what was needed to encourage people with regular incomes to save with and borrow from their local Credit Union. The more organisations which adopted similar schemes, the more sustainable local Credit Unions would become. Other advantages of widening the membership of Credit Unions are the growth of awareness of their services and the removal of any stigma which people feel is attached to using their facilities. In order to attract more middle-income members Credit Unions also needed to offer facilities such as online banking.

In promoting the services of local Credit Unions, and encouraging those people in need of financial support to become members, local people could be discouraged from using "Pay Day" lending companies or unofficial "loan sharks". This would help prevent people from falling into situations where they became susceptible to increasing debt.

John Haslam has offered to help promote the benefits of Credit Unions at future events should the review working group require this.

2.2 Work of Other Support Agencies

The working group has met with a number of organisations whose work compliments that of Credit Unions – or who work with Credit Unions to promote their services;

A meeting was held in October with;

Steve Ward – Illegal Money Lending Team

Lois Race – DCC Welfare rights (Derbyshire Discretionary Fund)

Phil Morris – N E Derbyshire Citizens Advice Bureau

The witnesses were invited to explain their roles and connections with Credit Unions which were as follows;

Illegal Money Lending team (Steve Ward)

- The IMLT is a national organisation, Steve's region covered Derbyshire
- He works 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(CUs) must compete against this by better promotion of their own services to generate more widespread take-up
- The CUs who do best at this are those with a High Street presence
- There is also a gap in service provision for those people who even the CUs cannot offer support (eg those whose credit ratings are too poor to risk the CU offering a loan)
- The IMLT had done some work with Lincoln City Council who were promoting local Credit Unions through their Social Housing service, providing new tenants with information packs on Credit Union services.
- Erewash CU was developing plans to extend their operation into the Dales/Amber Valley area and it was suggested the working group Members discussed this with them.

Derbyshire Discretionary Fund DDF (Lois Race)

- Lois is employed by Derbyshire County Council in the Welfare Rights team
- The Council administers the Derbyshire Discretionary Fund 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 Discretionary Fund 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 Discretionary Fund 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 signpost clients to their local CU if they are not eligible for support from the Fund (often because they are not on the required “qualifying benefits”).
- A model was currently being developed with local CUs through which loans to clients who wouldn’t normally be considered by CUs would be underwritten by the DDF. Cllr Rob Davison (Deputy Cabinet Member – Adult Social Care) is supporting this work
- If the model described above is introduced it should be made available countywide with all CUs participating in the scheme
- The DDF provided one off payments to people suffering unanticipated crisis – eg 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
- Similarly, Domestic Violence/Abuse support groups directed their clients to the DDF for help in moving out of dangerous situations
- Schools could be encouraged to introduce their pupils to CU savings schemes through the Local Authority Governor network

Citizens’ Advice Bureaux (CAB) (Phil Morris)

- The major part of CAB work was around money and debt issues
- The CABs work closely with partners (including IMLT, DDF and FAAD)
- Joint working is key to preventing people falling through “gaps” between the different services.
- The amount of debt people accumulate is rapidly increasing – previously a debt of £5,000 was considered heavy, now many people have debts

amounting to around £70,000 - £80,000 and people are frightened of their spiralling debts

- CABs work to set procedures and their debt workers are specifically trained and qualified for this work.
- People suffer fuel poverty (for energy bills) and food poverty but there is a new, growing trend in “funeral poverty”.
- A standard, countywide CU scheme would help considerably in ensuring everyone who needs help has universal access to support
- On introducing the new Universal Credit initiative, the Government refers to “debt advice” and “financial advice”. The former is intended to help people who are already in a difficult debt situation – the latter is to help people plan for the future to avoid incurring debt problems
- CUs nationally should be campaigning and pressing for them to have Priority Debtor status in the Government’s Common Financial Statement, although it is likely there would be resistance to this from other financial institutions

The meeting also noted that churches were increasingly depositing money from their reserves to local CUs. Churches and other organisations could promote the use of CUs to as many people as possible. A widespread campaign would increase CU membership which would benefit local communities and steer people away from high interest lenders.

2.3 The County Council’s Payslip Contribution scheme

The County Council introduced a scheme in November 2014 to enable employees to save with their local Credit Union through payslip contributions. A flyer promoting the scheme was circulated with all October payslips which explained the benefits of saving/borrowing with a Credit Union, gave details of how to join a Credit Union and then apply for contributions to be made automatically via pay deductions. Some organisations such as local Health Services had, or were soon to, introduce their own schemes and it was proposed that local District and Borough Councils would be encouraged to do the same.

Members of the review working group were keen to explore the potential for large private sector employers in the county offering a similar facility for their staff and a number of local companies were contacted to discuss the proposal. One local employer, the John Smedley Company, expressed an interest and their HR Manager met the working group to learn more about the

DCC scheme and consider a similar scheme for their own employees. Also present at this meeting was James Luckraft, DCC HR Service Partner, who was able to explain the pay slip contribution procedure adopted by DCC. The meeting established that;

- The review working group Members wanted to gauge if there is any potential for local companies to introduce a similar credit union pay slip contribution scheme to the one Derbyshire County Council had introduced for its staff.
- It was acknowledged that companies would have to consider the resource implications of promoting/administrating such a scheme, but there would be a willingness to work with local Credit Unions on this. For example, it would help if a Credit Union would visit companies and run an on-site session to sign up employees as members of their Credit Union – if staff then wanted to save with the Credit Union through regular automatic pay slip contributions, this could be set up by the companies.
- DCC HR Division or the Public Health Division could assist with contact details for the appropriate local Credit Union to discuss sign up sessions
- DCC would offer as much advice and assistance as possible to companies seeking to adopt pay roll contribution systems for their staff.

2.4 Credit Unions in Libraries

The working group was aware that the County Council was providing support to Credit Unions at some libraries. In order to gather more information, Members met with Martyn Shaw, Library Services Development Manager, in November. Martyn informed Members that an offer had been made to Derbyshire Credit Unions to use facilities at libraries in order to offer 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 very well and there are plans to expand the service to Whitwell library too. It was noted that not every library was suitable for Credit Union use as there was a need for some 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. However, there was potential for the provision of credit union services to be extended to other library sites and this was already in place at Swadlincote, with further potential at Long Eaton subject to confidentiality and security needs being met. It was noted that, even where there was not scope for a full Credit Union service to be offered at a local library, promotional material such as leaflets and posters was displayed at many other libraries across the county.

It was also noted that the County Council had introduced a blocking system for all of its computers (including those accessible for public use in libraries)

which, if anyone searched for the top Pay Day lender companies, diverted the search away from these high interest products, gave an explanation why and re-directed the searcher to the local credit unions.

2.5 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 CUs 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 Derbyshire Discretionary Fund to protect the most vulnerable people who may face reduced incomes on the introduction of the Universal credit system.

2.6 Meeting with Credit Unions and Derby Diocese

At the time of producing this progress report, the review working group were meeting with the local Credit Unions to ascertain their current operation methods – and discuss their proposals for future development.

Cllr Steve Freeborn has also met with representatives of the Derby Diocese and took the opportunity to talk about their work with credit unions and alleviating poverty for local people.

The outcomes of these discussions will be detailed in the final report for this review and will inform the review outcomes and recommendations.

3. Considerations

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

4. Recommendation

The Committee is requested to note the work undertaken by the review working group and the proposed additional research which will inform the final report.

Councillor Clive Moesby

Chair of the Improvement and Scrutiny Committee – Resources