

**TELFORD & WREKIN COUNCIL**

**CABINET - 13<sup>th</sup> NOVEMBER 2014**

**GRANT FOR PROVISION OF SHORT TERM COMMUNITY LOANS**

**REPORT OF: ASSISTANT DIRECTOR: CUSTOMER SERVICES**

**LEAD CABINET MEMBER – CLLR BILL McCLEMENTS**

**PART A) – SUMMARY REPORT**

**1. SUMMARY OF MAIN PROPOSALS**

- 1.2** Many people need additional help with everyday costs and the Benefits Service is seeing increasing numbers of people using payday or other short-term loans to meet these needs. Nationally, both the Citizen Advice Bureaux and the StepChange Debt Charity have similarly reported increasing numbers of people having problems with payday loans with particular growth in the number of people with 5 or more payday loans.
- 1.3** This report outlines a recommendation to use £100,000 of funding from the 13/14 Crisis Assistance allocation to fund a grant to enable a local credit union to provide an ethical Short-term loans scheme to support some of the most vulnerable residents in our community who are currently using payday loan schemes, many with APR in excess of 1,500%.

**2. RECOMMENDATIONS**

- 2.1** Cabinet ring fence £100,000 of funding from the 2013/14 Crisis Assistance allocation to be used to fund a grant to enable a local credit union to provide an ethical short-term loans scheme to local residents who would otherwise be unable to access low-interest rate credit, that mirrors some of the benefits of the payday loans concept at significantly reduced charges.
- 2.2** Cabinet to confirm that the grant should be allocated to Just Credit Union Ltd, who have successfully bid through a competitive process to receive the grant.
- 2.3** Delegate responsibility to the Assistant Director: Customer Services, in consultation with the Cabinet Member for Finance & Enterprise, to approve the detail of an ethical short-term loans scheme and oversee its implementation.

**2.4 Delegate responsibility to the Assistant Director: Law, Democracy & People Services to approve and execute all necessary contractual documentation in accordance with the Constitution.**

**3. SUMMARY IMPACT ASSESSMENT**

<b>COMMUNITY IMPACT</b>	Do these proposals contribute to specific Co-Operative Council priority objective(s)?	
	No	
	Will the proposals impact on specific groups of people?	
	Yes	An ethical short-term loans scheme will provide a more affordable alternative option for those residents who would otherwise take out payday loans or unregulated alternatives. This will include some of the most vulnerable and financially excluded people in our Borough'.
<b>TARGET COMPLETION/DELIVERY DATE</b>	The new scheme will be operative from 1 <sup>st</sup> April 2015, the point at which we anticipate that the national funding for the scheme will be withdrawn.	
<b>FINANCIAL/VALUE FOR MONEY IMPACT:</b> Yes		
<p>The Crisis Assistance funds for 2014/15 contain an amount rolled forward from 2013/14 to fund the £100k payment to Just Credit Union as a one off grant. This will still leave sufficient funding available for the remaining commitments against the Crisis Assistance pot in 2014/15.</p> <p>There is no financial risk to the Council relating to the loans made to individuals as the loan transaction will be between the individual and Just Credit Union. Regular information will be provided from Just Credit Union to enable the Council to monitor outcomes of the grant on a bi monthly basis initially and then quarterly after 6 months. This will include information such as the number of loans applied for granted and refused, value of loans granted, purpose of loans and number and value of loans in default.</p> <p>The £100k will be made as a grant payment to Just Credit Union. The grant will be paid in instalments in relation to the up front and administration costs incurred by Just Credit Union and the amount issued as loans.</p>		
MLB 07.10.14		
<b>LEGAL ISSUES:</b> Yes		
<p>The proposed grant meets the requirements set out in a Settlement letter dated 6 August 2012 which was sent to Chief Executives by the Minister for State and Pensions regarding the abolition of the discretionary social fund and transfer of funding for a new provision. The letter states that no restrictions would be placed on how the funding was used, but stated that the intention</p>		

was to localise funding to give local authorities the flexibility to help those in genuine need as they see fit.

The grant is also in accordance with the government's expectation that funding should be concentrated on those facing greatest difficulty in managing their income, and to enable a more flexible response to an unavoidable need.

A legally compliant tender process has been undertaken, and the successful provider will be required to enter into a legally binding agreement to ensure that the use of the funding meets the requirements contained in the settlement letter.

The grant will include specific and measurable standards and outcomes, which will require active management through the collation and analysis of key performance indicators and regular meetings with the provider.

<b>OTHER IMPACTS, RISKS &amp; OPPORTUNITIES</b>	No	
<b>IMPACT ON SPECIFIC WARDS</b>	No	Borough wide impact

## **PART B) – ADDITIONAL INFORMATION**

### **4. INFORMATION**

#### **4.1 Background**

4.1.1 As part of the Welfare Reform Act two parts of the discretionary Social Fund which were administered by the Department for Work and Pensions were abolished with effect from 1 April 2013. The government instead provided each council with funding for new Local Welfare Provision. On 1<sup>st</sup> April 2013 Telford & Wrekin Council launched its Local Crisis Assistance and Resettlement schemes as a replacement to the Crisis Loans and Community Care Grants.

4.1.2 The Crisis Assistance scheme provides applicants with essential goods or services that they do not have the means to purchase themselves, and without which there is a genuine risk to the health or wellbeing of them or their family.

4.1.3 The Resettlement scheme provides applicants with essential items of furniture or services that they require to enable them to set up home and live independently following a period living in some form of institutionalised environment, such as prison, care, or statutory temporary accommodation.

4.1.4 The funding received from the Department for Work and Pensions in 2013/14 to enable us to provide Crisis and Resettlement funding is:

Programme Funding	£486,724
Administrative Funding	£102,848

Funding for 2014/15 has been confirmed to be at a similar level, although the DWP have announced that funding will be withdrawn entirely from 2015/16. A separate report on this issue is being brought to Cabinet so that the future of the Crisis and Resettlement Assistance schemes for 2015/16 and beyond can be considered.

- 4.1.5 Although the Crisis and Resettlement Assistance schemes provide help with the absolute essential items that are required to set-up a home, or ensure that someone's health or wellbeing are not compromised, the scheme does not provide assistance outside of that quite restricted definition. We would not for example provide items such as carpeting, curtains, tumble dryer or a television.
- 4.1.6 Many people still need additional help with everyday costs and the Benefits Service is seeing increasing numbers of people using payday or other short-term loans to meet these needs. Nationally, both the Citizen Advice Bureaux and the StepChange Debt Charity have similarly reported increasing numbers of people having problems with payday loans with particular growth in the number of people with 5 or more payday loans
- 4.1.7 Payday loans are presented by the companies who offer them as a quick, easy and affordable way to solve money problems. However, in practice, payday loan interest rates tend to be very high (research suggests interest rates vary from 1300% to more than 7000% APR).
- 4.1.8 In 2012, there were about 240 payday loan firms in the UK. In Telford & Wrekin, there are at least 7 shops offering payday loans or similar services (2 in Telford Town Centre, 3 in Wellington, 1 in Dawley and 1 in St. Georges).
- 4.1.9 There are still limited affordable alternatives to payday and other short-term loans. Credit unions (member-owned not for profit organisations) offer lower-cost loans. However, unlike payday lenders, they tend not to offer loans for shorter time periods.
- 4.1.10 The three credit unions that operate in Telford & Wrekin (FAIRshare, Just Credit Union and MWS Credit Union) do not currently offer a comparable alternative to a payday loan.

However, some credit unions, such as London Mutual, Oldham and Nottingham, are starting to offer affordable alternatives to payday loans. The difference in cost between a typical payday loan and a credit union alternative (£400 over 30 days) is illustrated below:

	Interest rate (APR)	Number of days	Interest and other costs
Credit union short-term loan (based on London Mutual CUOK loan)	27%	30	£19
Payday loan company	5600%	30	£108

4.1.11 Although there is a growing awareness of these issues, most activity has focused on restricting promotion and advertising, for example many councils, including Telford & Wrekin, have prevented access to payday loan sites from public access computers in libraries. In 2013, Telford & Wrekin made the decision to block any access to websites of “pay-day lenders” from its publicly accessible internet connections.

4.1.12 What does not currently exist in the Borough for customers of limited incomes, or poor credit ratings, is access to fast, affordable, ethical short-term loans.

4.1.13 The loans currently available through local Credit Unions require the borrower to have saved continuously for a period of 3 months before the loan. The reality is that if a customer needs to borrow money fast, the 3 month delay will act as a significant barrier, often instead pushing them towards the pay-day lender route.

## **4.2 Development of a local scheme and awarding of the grant**

4.2.1 In April 2014, a joint officer member working group along with colleagues from CAB convened to investigate the viability of working with a local credit union to create a low-cost ethical loans scheme that could be accessed by residents who are not usually able to access low cost credit.

4.2.2 The working group designed a specification for an ethical loan product to be delivered through a local credit union, the key objectives of which are:

- To provide residents in the Telford and Wrekin area with access to affordable short term loans that mirror the benefits of the payday loans concept at significantly lower charges
- The loans product would initially only be available to those residents who are usually financially excluded from accessing low-interest rate credit
- The loan product would be for small loans of between £50 - £300, payable over no longer than 52 weeks
- Loans would be available immediately upon applying, without the need to be a pre-existing member of the lending organisation

- Loans would only be granted subject to an affordability assessment being undertaken.
- Alongside the repayment of the loan, the borrower would also be committed to saving a small weekly amount of £1.50, which could not be accessed until the loan was repaid in full
- The application and decision process for the loans needed to match the ease and simplicity of pay-day lender loans to ensure that the product was seen as a real alternative
- Telford & Wrekin Council will provide a grant of up to £100,000 to a single Credit Union to cover any set-up and administration costs for the life of the project and to fund the capital pot to be used for the awarding of the loans.

4.2.3 In June 2014, a joint meeting of the Co-operative & Communities and Budget & Finance Scrutiny Committees took place at which they reviewed the viability and draft specification of the scheme. The Committee were wholly supportive of the proposal and suggested some practical changes to the detailed scheme specification, all of which were adopted and included in the final specification.

4.2.4 In July 2014 invitations were issued to the three local credit unions asking them to submit bids for the funding by responding to the detailed scheme specification that had been designed.

4.2.5 The period for bidding ended on the 1st September, with just one bid being received, from Just Credit Union Ltd. Just Credit initially provided services to the rest of Shropshire County, but has been providing access to its services for residents in Telford since 2008. Just Credit's services in Telford are provided in partnership with Wrekin Housing Trust who provides them with the facilities to provide outreach services from Wrekin Housing Trust premises in Woodside, Wellington, Dawley and Donnington with a designated outreach worker. They currently have 1,255 active members in Telford of whom 705 are defined as being financially excluded.

4.2.6 Over an estimated 2 year life-span for the product, Just Credit have estimated that the £100,000 grant will enable them to make loans to the value of £272,160.

4.2.7 Just Credit will aim to launch the loan product in early December 2014 with the aim of attracting borrowers who may turn to more expensive forms of lending over the Christmas period. This will be supported with a wide ranging marketing campaign over the Christmas and New Year period, which will be supported by the Council.

4.2.8 The Council will support Just Credit by raising awareness of the loan scheme amongst front line staff and partners who interact with residents who are struggling with debt caused by high-cost borrowing,

so that they can make them aware of the alternative options available through Just Credit.

- 4.2.9 The Council will also support Just Credit by raising awareness of its other available schemes and products, including the promotion of its savings schemes to employees, and offering services such as direct payroll deduction for staff who want to save with Just Credit.
- 4.2.10 As part of the specification for the product we stated that it would be desirable if the credit union were to have a town-centre presence in addition to its existing out-reach sessions. Subject to further discussions it is proposed that an offer be made to provide desk space to Just Credit in First Point in Southwater One, initially for two half-day sessions per week.

## **5. IMPACT ASSESSMENT – ADDITIONAL INFORMATION**

- 5.1 This policy does not have a negative effect on any group and has been developed to help support those people in the Borough who are most deprived.
- 5.2 The Co-operative and Communities Scrutiny Committee has welcomed the opportunity to be involved in the development of the short term community loans. The proposals were considered by the Scrutiny Committee in detail at an early stage in the development and it is recognised that the Committees comments have informed this policy. The Scrutiny Committee is also in the process of concluding a review on the effect of benefit sanctions and have received evidence of the hardship and financial pressure they can cause. The Committee therefore fully endorse the Short Term Community Loan Scheme and commend those who have developed it as this will prevent families and individuals putting themselves at financial risk through the use of payday loans. The Committee is supportive of the loan scheme and the related services of the provider being widely promoted.
- 5.3 The Committee support the model that has been developed and are assured that there is no financial risk to the Council, but would recommend that in addition to the outcomes that will be monitored as set out in paragraph 4.2.2 that the social benefit of the loans is also recorded e.g. case studies which demonstrate the difference this scheme has made to individuals and families.

## **6. PREVIOUS MINUTES**

- 6.1 Minute 82a) of the full Council meeting of the 7<sup>th</sup> March 2013 within with the following motion was unanimously voted for.

“This Council urges the Government to take immediate action to counteract the proliferation of legal loan sharking by ensuring that a bill introducing a cap on the amount of interest that can be charged on

short-term and payday loans is scheduled for debate during this parliament. The Council also urges the Government to further strengthen consumer protections by ensuring a breach of these rules would make any loan agreement unenforceable by the lender”.

## **7 BACKGROUND PAPERS**

7.1 None

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