



**Rochford District
Council**

REPORT TITLE:	Improving access to affordable credit and financial services for low-income households via credit unions.
REPORT OF:	Eugene Minogue (interim) Director - Communities and Health

REPORT SUMMARY

At the Ordinary Council on the 14 December 2023 a Motion proposed by Cllr Mrs E P Gadsdon and seconded by Cllr S E Wootton was approved as follows (Min 269 (2) refers):

“Rochford District Council has a proud record of supporting its residents through the Cost of Living crisis, especially those in financial hardship. There will be some who, through no fault of their own, do not have access to conventional money lenders, and turn to loan sharks which invariably charge extremely high rates of interest, often under illegal conditions. This motion proposes that this council helps protect its residents by signing up to a charger that expresses the Council’s commitments to fighting loan sharks. Furthermore, as an integral part of this there is a “call for action” for the Executive to investigate as a matter of urgency how Credit Unions are working with other local authorities with the intention to create a similar scheme in Rochford to support residents. Any resulting financial implications of this need to be in the 2024/25 budget.”

This report sets out the role of the council in helping to protect its residents by improving access to affordable credit and financial services for low-income households via credit unions.

The COVID-19 pandemic, has been compounded by deteriorating economic conditions and growing inflation, which has led to a cost-of-living crisis. As such, the levels of financial hardship these have generated have increased the need to ensure that affordable and responsible credit is available alongside a strong welfare safety net and direct financial and in-kind support. Credit isn’t an appropriate solution for everyone, but for those who need it to smooth income fluctuations or deal with short-term financial problems, it is vital that it is affordable and helps build financial stability and resilience as part of the longer-term social and economic recovery.

Therefore, the case for supporting residents to access affordable and responsible finance via local credit union(s) is clear.

RECOMMENDATIONS

- R1** – For Committee to note the contents of the report.
- R2** – Sign a Partner Agreement, *supported by Essex County Council and Essex Police*, to demonstrate the council's clear commitment in taking a zero-tolerance approach to any issues of Illegal Money Lending (e.g., loan sharks).
- R3** – Submit an application for recognition for the England Illegal Money Lending Team (IMLT), [Partner Recognition](#) standard.
- R4** – Review how the council, could support with providing community access points or facilities that could be utilised by credit unions to support the delivery of face-to-face services in our communities.
- R5** – That the Committee makes any additional recommendations as it sees fit to the Executive for consideration.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATIONS

- 1.1 The Council is determined to do everything it can at a local level to support people as the cost-of-living rises.
- 1.2 The Council recognises that effectively tackling loan shark behaviour leads to safer communities and neighbourhoods for residents.
- 1.3 Consumer awareness of credit unions is relatively low, especially when compared to many high-cost lenders. Given our role as local community leaders and place shapers, the council are uniquely placed to support and promote the delivery of affordable and responsible finance via credit unions.
- 1.4 It not only helps people to deal with short-term financial problems and manage uneven income, but also builds financial stability and resilience that can prevent future financial problems and save costs in the longer term. Additionally, it ensures the most appropriate outcomes are delivered for an individual's circumstances
- 1.5 By working in partnership with credit unions, the council can provide widespread and seamless access to affordable finance and thus a comprehensive and robust alternative to high-cost and/or illegal lending.
- 1.6 This should not be seen in isolation, but as part of the council's [#ByYourSide campaign](#) which includes advice on; *Staying warm, elderly support, local school uniform, financial support, health & wellbeing, family support, winter warmer packs and more.*
- 1.7 The promotion of affordable and responsible finance by local authorities is also advocated by the Financial Conduct Authority (FCA). In their [Alternatives to High-Cost Credit Report](#), the FCA note that local authorities sit at the centre of their community and have a key role in promoting economic growth in their area.

- 1.8 The England Illegal Money Lending Team (IMLT) has been working with Credit Unions since 2013. The IMLT offers a Stop Loan Sharks Recognition Programme for partners. The programme encompasses Partner and Partner Plus+ awards for organisations that pledge, demonstrate or advocate support for the IMLT to raise awareness of the dangers of loan sharks in communities. Partners must actively ensure that their staff are able to respond to suspected and reported illegal money lending by either signposting victims to relevant services or providing direct support. The Recognition Programme is open to all partner organisations who meet at least five of the priority criteria. The Council would need to complete an application for recognition and submit this with supporting evidence.
- 1.9 Developing activity in line with the councils identified goals to help protect its residents by improving access to affordable credit and financial services will ensure strong alignment between local delivery and national strategy, such as the [Report a loan shark - GOV.UK](#) via IMLT. It will also demonstrate the critical role that councils can play in the delivery of the financial wellbeing agenda.
- 1.10 The Council can use our procurement procedures to embed support for community finance providers within their supply chain. Prospective suppliers bidding for council contracts could be encouraged to outline how they would support local provision and promote relevant services to their staff (e.g. as part of their social value commitment).

2.0 BACKGROUND INFORMATION

- 2.1 Alongside the welfare system and other forms of financial and hardship support, credit is an essential tool that enables households to smooth fluctuations in income, pay for unexpected events and cover periods of increased expenditure such as school holidays. Unfortunately, many people are unable to access lower-cost credit like bank credit cards and loans as they are financially vulnerable, on low or unstable incomes, or have a bad credit history. Many of those in this position will therefore unfortunately turn to high-cost credit, such as payday lending, rent to own or home collected credit, to help meet their needs because they do not have, or perceive that they do not have, any other alternative. The scale of high-cost lending in the UK was already significant before the start of the COVID-19 pandemic, with the FCA estimating that three million consumers were using high-cost credit (excluding overdrafts) on a regular basis.
- 2.2 Credit Unions are financial co-operatives, providing a range of products and services to their members, including savings, loans and transnational banking.
- 283 credit unions in Great Britain
 - 1.24 million credit union members
 - £969m total loans on balance sheet

Find a Credit Union - www.findyourcreditunion.co.uk/find-your-credit-union

-
- 2.2 Ensuring good quality provision; Fair4all Finance have produced an [Affordable Credit Code of Practice](#) that identifies best practice characteristics in affordable credit provision, across five key themes:
- organisational set-up and social purpose
 - approach to customers
 - lending
 - repayment and recovery
 - customer support and wrap-around services.
- 2.3 Fair4all Finance intend that all the organisations they work with will strive towards following the code of practice, to help people in vulnerable circumstances improve their financial resilience and wellbeing.
- 2.4 The code of practice should therefore be utilised by councils to inform any partnership work with credit unions to ensure the quality and standard of local affordable credit provision.
- 2.5 Credit unions are fully regulated deposit takers and are therefore eligible to accept deposits as banks do. Individuals and organisations can therefore include credit unions within their investment portfolios and provide funding which the credit union can lend to local residents.
- 2.6 Councils can support a credit union's wider financial sustainability by making their payroll available to take payments towards savings and loans, thereby giving credit unions access to a new, more profitable membership base. This benefits council staff by making an ethical and responsible service available but also the credit union by helping them reach a wider range of people.
- 2.7 It is important that the provision of affordable credit should be part of a broader package of advice and wrap-around support interventions, such as money and debt advice, offered the councils and local partners e.g., the council's #ByYourSide campaign.
- 2.8 Ensuring these are aligned to affordable credit is essential to not only maximising finite resources and providing financial help to the most vulnerable, but also for converting this short-term remedy into longer-term financial stability, by addressing the resident's / household's wider and underlying problems.
- 2.9 Credit-related activity, including credit broking (the introduction and referral of individuals to sources of credit) is a regulated activity, that is usually likely to require authorisation by the FCA.
- 2.10 Importantly, local authorities are specifically excluded from the legal requirement to be authorised for most credit-related regulated activities, including credit broking, as detailed in the FCA's Perimeter Guidance: [PERG 2.9.23G](#).
- 2.11 Those authorities that provide social housing, however, may find the following FCA guidance note of interest: FG18/6: Helping tenants find alternatives to high-cost credit and what this means for social housing landlords.

- 2.12 The document aims to help social housing landlords, including local authorities and housing associations understand the scope and application of consumer credit regulation when they help tenants to find alternatives to high-cost credit, such as loans from credit unions.
- 2.13 The promotion of affordable and responsible finance by local authorities is also advocated by the FCA. In their [Alternatives to High-Cost Credit Report](#), the FCA note that local authorities sit at the centre of their community and have a key role in promoting economic growth in their area.
- 2.14 Additionally, the FCA highlight that given their responsibility for essential and support services, they are in a unique position to communicate with and signpost consumers to relevant services.

3.0 OTHER OPTIONS CONSIDERED

- 3.1 Do nothing.
- 3.2 There are various implications and requirements of establishing a credit union scheme which would rule out the District establishing its own. All credit unions are regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Local authorities have to operate within strict statutory guidelines related to borrowing and investments - the Treasury Management Code and the Prudential Code. However, there are several well-established local credit unions including [Holdfast Credit Union Ltd](#) & [Basildon Credit Union Ltd](#), and more broadly nationally across England.

4.0 RELEVANT RISKS

- 4.1 None.

5.0 ENGAGEMENT/CONSULTATION

- 5.1 Promotional and awareness raising activity should be informed by relevant behavioural insights research and resources to ensure that it is as engaging and effective as possible. Activity should be targeted to ensure that those most in need can find out about the support available and this should include the use of partners working with vulnerable resident's/household's.
- 5.2 Practical opportunities to embed relevant information, resources and support tools across council activity and processes should be mapped out and prioritised. For example, embedding reference to local affordable finance provision and the 'stop the loan sharks' team (IMLT) within relevant council tax communication processes. External resources and tools can also be used to add value to local information.
- 5.3 Robust impact measurement and evaluation should be embedded within the delivery of affordable finance, enabling the council and its affordable finance partner(s) to track the impact of support on resident's / household's, the council,

wider community and local economy. Appropriate measures should be agreed and included in any partnership agreements or contracts, alongside the standard output-based KPIs.

- 5.4 Tools to measure social return on investment or social value can be used to undertake predictive impact modelling of new affordable finance proposals, providing a considered estimation of the likely impacts and value that will be delivered. This can help to further strengthen the case for affordable finance, and should be included in any proposition for investment presented to the council or external stakeholders.

6.0 FINANCIAL IMPLICATIONS

- 6.1 There may be some cost in submitting an application IMLT to achieve the [Partner Recognition](#) standard.
- 6.2 Similarly, any council accommodation offered at a discounted rent would carry a cost, but this may not be required in order to enable the community to access credit union facilities.

7.0 LEGAL/GOVERNANCE IMPLICATIONS

- 7.1 The Council has various powers permitting investments, including loans. The most commonly relied on is S.12 Local Government Act 2003 which permits investing for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs. In addition, it has more general powers such as S111 Local Government Act 1972 (the power to do anything - including lending of money) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions: and the general power of competence under Section 1 Localism Act 2011. Care will need to be taken that any investment complies with appropriate state aid requirements, and that the rate of return on any loan is at a commercial level, or that an appropriate exemption applies.

8.0 EQUALITY & HEALTH IMPLICATIONS

- 8.1 The Public Sector Equality Duty applies to the Council when it makes decisions. The duty requires us to have regard to the need to:
- a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act. In summary, the Act makes discrimination etc. on the grounds of a protected characteristic unlawful.
 - b) Advance equality of opportunity between people who share a protected characteristic and those who do not.

c) Foster good relations between people who share a protected characteristic and those who do not, including tackling prejudice and promoting understanding.

- 8.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, marriage and civil partnership, race, religion or belief, gender, and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for b) or c) although it is relevant for a).
- 8.3 The proposals in this report will not have a disproportionate adverse impact on anybody with a protected characteristic.
- 8.4 The Localism Act provides equal opportunity for local communities to nominate assets that are important to them.
- 8.5 The socio-economic benefits for resident's / household's improving their financial resilience and wellbeing by accessing affordable and responsible finance are diverse and differ based on every individual circumstances.
- 8.6 This could be everything from the money saved, borrowing more affordably to reduced financial stress and improved health outcomes.
- 8.7 Access to affordable credit delivers significant benefits and cost savings to individuals and households, particularly for those on the lowest incomes and who are financially excluded.

9.0 ENVIRONMENT & CLIMATE IMPLICATIONS

- 9.1 There are no environment or climate implications, however if vulnerable residents have been identified as at risk of loan sharks etc. they should be sign posted to council supported services that can reduce fuel bills (a key driver in the current cost of living crisis e.g. schemes that offer free insulation or the installation of renewable energy, as set out on the councils website - [Energy Efficiency for your Home - Grants and Schemes | Rochford Council](#)).

10.0 ECONOMIC IMPLICATIONS

- 10.1 There is limited available research estimating the local economic impact of improving access to affordable finance and supporting increase of financial inclusion. The most applicable return on investment research is taken from work undertaken by Circle Housing that estimated the 'economic multiplier' of its work with Leeds Credit Union.

