

Officer Response to Notice of Motion No. 19 – Affordable Credit

Purpose of Report

1. The purpose of this report is to provide Council with background information about the work that has been carried out to support credit unions in the County and to improve access to affordable credit to individuals (especially those on low incomes).

Definition of financial exclusion

2. “Many people, particularly those living on low incomes, cannot access mainstream financial products such as bank accounts and low cost loans. This **financial exclusion** imposes real costs on individuals and their families - often the most vulnerable people in our society. It also has costs for the communities in which they live” (Financial Inclusion Task Force)

Local background

3. The Bright Report on the ‘credit crunch’ (published in March 2009) highlighted a number of issues including the problems caused by the lack of affordable credit. Following the publication of the report, a partnership group led by the Council put together plans to address this issue through the ‘Action for Wiltshire’ programme.
4. On behalf of ‘Action for Wiltshire’, the County’s financial inclusion partnership (‘Wiltshire Money’) undertook to address the specific Bright Report recommendations to develop a strong and sustainable credit union service and to improve access to affordable credit.
5. Further background to this is available in a paper which went to Wiltshire Council’s Cabinet on 26 January 2010 from Councillor Jane Scott.

National background

6. The Department for Work and Pensions’ (DWP) programme for tackling financial exclusion included ‘financial inclusion champions’ and the ‘Growth Fund’. Wiltshire benefitted from the support of the Rural Financial Inclusion Champions (through the Commission for Rural Communities). In addition we were successful in our application for Growth Fund. Growth Fund was the DWP’s commercial programme to address market failure in terms of the availability of affordable credit. Through a competitive process, funding was

made available to local providers to make loans to individuals. All Growth Fund contracts came to an end by April 2011. More information on Wiltshire's success in delivering Growth Fund is described below.

7. Reducing child poverty has been a central government target for many years. The Child Poverty Act, which commits this and future governments, to eradicating child poverty by 2020 received Royal Assent in March 2010. The Act requires central government to produce a national strategy and reduce child poverty. It also requires local areas to address child poverty through cooperation between partners, the production of a needs assessment and strategy. The Wiltshire Reducing Child Poverty Strategy will go to Cabinet for approval on 26 July 2011. The Strategy identifies tackling financial exclusion in order to help reduce child poverty.

Affordable credit in Wiltshire

8. Since October 2007 affordable credit has been available in Wiltshire through a contract with the DWP (Growth Fund). The loans have been branded locally as 'Wiltshire Moneyline Loans'. Community First (Wiltshire Rural Community Council) has been the lead provider of these loans and held the contract with the DWP. This work has also been made possible through a grant from Friends Provident. The loans were characterised by the following:
 - Typically around £500
 - Interest rate of 26.8% APR
 - Targeted at people with low incomes (defined)
9. Since the autumn of 2010 the four Wiltshire credit unions have been delivering Wiltshire Moneyline Loans through a sub-contract with Community First. This has been possible through the support of other partners on Wiltshire Money including social housing landlords and Wiltshire Council. This development has been motivated by a desire to strengthen credit union services in the County.
10. The Growth Fund contract has made it possible to lend £429,550 to local people through over 800 loans. The project has significantly reduced the amount of interest families and individuals in Wiltshire would have had to pay if they instead had gone to a doorstep money lender. The difference of **£294,630.30** is the amount of money that Wiltshire Moneyline Loans has saved people of Wiltshire paying out to doorstep lenders who charge 272.2%APR. Other legal commercial lenders charge even higher interest rates. This money has been secured in Wiltshire and has been reinvested into Wiltshire businesses.
11. Although the Growth fund contract recently came to an end, the good news is that the loan pot remains in Wiltshire. This means that the credit unions can continue to recycle Wiltshire Moneyline Loans to local people.

Credit Union development in Wiltshire

12. The Bright Report recommended that the credit unions are supported and developed to provide a sustainable single service for the people of Wiltshire. Over the last 12-18 months a great deal of collaborative working has taken place between the four Wiltshire credit unions with the support of a range of partners. Wiltshire Moneyline Loans has provided a platform for agreement on common practices, policies, and IT systems.
13. The collaborative working between the credit unions has resulted in their agreement to deliver a single service throughout the county. The trading name of this service is Wiltshire Community Bank. From 1st July 2011 customers will be able to access the same financial products and the same levels of service no matter where they live in Wiltshire. This new venture is supported by Wiltshire Council through the Action for Wiltshire programme. A £40,000 grant (spread over 2 years) will enable Wiltshire Community Bank to continue to deliver Wiltshire Moneyline Loans and to provide other services to its members.
14. The ultimate goal is to have a sustainable credit union service in Wiltshire. To achieve this it is necessary for the service to attract many new members. Current credit union membership across the county is around 1,500 and there is great potential for significant growth. Wiltshire Council has already committed to providing a payroll deduction service for staff who wish to join Wiltshire Community Bank. It is hoped that this can be delivered before the end of 2011. Wiltshire Community Bank is also currently developing grant funding applications in order to fund a Business Development Manager to help it achieve the growth it needs to be fully sustainable and reduce its dependence on grants into the future.

Current national developments

15. In March 2011 the Government announced a new £73 million fund to help the modernisation and growth of credit unions so they can more effectively help those people who are financially excluded by giving them access to affordable bank and savings accounts and other financial services that meet their needs. Ministers expect the Post Office network to play a central role in enabling credit unions to reach more families. It would like to see people accessing credit union accounts across Post Office counters as well as credit union branches. In linking with credit unions the Post Office would be providing access to full transactional banking, weekly and fortnightly bill payments, savings, and low cost credit services to financially excluded people who currently have limited or no access to these services and who are often forced into the hands of loan sharks.

16. A feasibility study project steering committee are currently examining how the Government's goals in relation to banking services and affordable credit for those who are currently financially excluded can be met. More information can be found at: <http://www.dwp.gov.uk/other-specialists/the-growth-fund/latest-news/>

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