

For General Release

REPORT TO:	Cabinet 21 March 2016
AGENDA ITEM:	6
SUBJECT:	Providing accessible financial services; “Croydon Plus” local Credit Union Re-launch
LEAD OFFICER:	<i>Graham Cadle, Assistant chief executive – customer and transformation</i>
CABINET MEMBER:	Councillor Mark Watson, Cabinet Member for Communities, Safety and Justice
WARDS:	All
CORPORATE PRIORITY/POLICY CONTEXT:	
<p>Continuing changes from welfare reform, including the current implementation of Universal Credit, the overall economic environment and rising local housing costs, create increased pressures for residents with regard to their financial position. Ensuring residents, and especially those most at risk, have access to appropriate financial services and advice is a key factor in enabling independence and managing further demand on Council services. Many of those most vulnerable residents are unable to access mainline banking facilities and therefore can find themselves relying on very expensive pay day lenders which often leads to further pressures and issues. A healthy and locally focused Credit Bank will provide a number of key services and support mechanisms across the Borough.</p>	
AMBITIOUS FOR CROYDON & WHY ARE WE DOING THIS:	
<p>The approach helps provide the right skills and tools that allow residents of Croydon to make their own financial choices , live an independent life and grow their finances.</p> <p>This work supports the commitment to tackle the cost of living crisis and specifically to support Croydon’s Credit Union as a people’s bank and a financial co-operative open to all. We have actively worked with and supported Croydon’s Credit Union as a people’s bank and an independent financial co-operative open to all. This initiative expands the Credit Union’s services, providing sustainable loans linked to membership of the Union and a commitment to save in the longer term.</p> <p>The work will assist to provide an alternative to payday loan companies, which are causing great harm in our communities. We will stop access to payday loan web sites from council-owned computers (for instance, in libraries).</p>	
FINANCIAL IMPACT	
<p>The council has provided a ring-fenced loan of £100,000 to provide the Credit Union with the required level of capital and enable it to continue to provide a service. Additionally the council has provided £25,000 to facilitate the set-up of online services and the new service offer.</p>	
KEY DECISION REFERENCE NO.: Not a key decision	

1. RECOMMENDATIONS

The Cabinet is recommended to note the approach and additional service offer from the work with the local Credit Union

2. EXECUTIVE SUMMARY

- 2.1 In recent years a significant number of Croydon residents have faced financial hardship and pressures, in many cases these have been acute. Alongside reductions in financial support as a result of welfare reform, there have been increases in housing costs and pressures from unemployment and low wage income.
- 2.2 In many instances residents facing financial pressures are unable to access good financial support and facilities and can end up using services from organisations such as payday lenders, who charge very high fees and very often will then end up adding further significant pressures and issues. It is estimated that 2,000 of our most vulnerable residents do not have a bank account and therefore can not accept BACS payments or make payment through direct debit which can reduce costs and charges.
- 2.3 As well as the effect on that resident and their family such situations can result in increased demand on scarce council resource and once situations become acute the options to assist often become more limited and take a longer period to rectify.
- 2.4 The implementation of Universal Credit will in many cases change the financial needs of some of our most vulnerable residents as payments will require bank accounts and the frequency and value of those monies will require a different approach to manage budgets.
- 2.5 The council has been working on options to provide additional financial services in the best way for all local residents and has now agreed the best approach to provide additional tailored local services, quickly and in a way that promotes the community to save and utilise those funds to support its own local people.
- 2.6 Credit Unions are community banks that provide safe and cost-effective alternative to payday loan companies. They are owned by their members and regulated by the Financial Conduct Authority.
- 2.7 Established in 1999 – as Croydon, Merton and Sutton Credit Union – the current local service is part of a movement that has been in existence for more than 150 years. Credit unions originated in Europe, and operate as cooperative community banks offering, in addition to savings accounts, loans at rates that are lower than their high-street bank competitors, payday companies and loan sharks.

3. DETAIL

- 3.1 The council detailed its approach to financial inclusion in a paper endorsed by *Cabinet on 19th Jan 2015;*

- Ensuring customers have access to financial products; such as bank accounts and insurance
- Educate and develop the skills for all residents to allow them to budget and manage money, or plan for the unexpected
- Enabling people to make the most of their money through digital services
- Ensuring there is access to affordable credit
- Provide skills and opportunity to enter and own their future in employment

3.2 The opportunity and fairness commission's recent report further identified and supported the need for the right local services to "*support residents towards better times*" citing particularly how many residents told "*how they struggle to make ends meet because they have low paid or insecure jobs, debt, or a long term illness or disability. By taking employment, debt, benefits and other advice and support out into every part of the community, in GP practices, church halls, and community centres, and even door to door, far more can be done to help residents through tough times.*" To address this is suggested that "*debt consolidation, benefits and other advice is offered more extensively in the community with money wise training provided to those in debt or vulnerable to debt to help make Croydon a money wise borough.*"

3.3 We estimate over 2,000 of our most vulnerable residents do not currently have a bank account and therefore are likely to be unable to manage their finances effectively and will not be able to benefit from opportunities such as reduced costs through payment by direct debit or accepting BAC's payments. From the work with our customers to date we estimate the below support is required across Croydon

Customer characteristic	Number of customers	Intensive support	Mild/Moderate support
Learning disability	250	30% (75)	70% (175)
Homeless	1,875	25% (469)	75% (1406)
Physically disabled	2,758	33% (910)	66% (1848)
English as second language	1,206	10% (121)	90% (1085)
Mental health	2,000	25% (500)	75% (1500)
Multiple complex needs	600	5% (30)	95% (570)
In temporary accommodation	2,887	10% (289)	90% (2598)
Total	11,783	2,393	9,390

Mild/Moderate support need: typically relates to a blend of services, with a focus towards savings and/or debt consolidation. Could be comfortable to engage digitally or through face to face contact.

Intensive support: typically relates to a blend of services biased towards money management and budgeting support. This is likely to require face to face contact to support form filling and/or jam jar accounts, to create financial stability.

- 3.4 Customers who access payday loans typically have a basic income of nearly £4,000 below the national average (£17,100 pa) and 64% of loans made through those arrangements will not be paid on time and will therefore incur further charges. Whilst new regulations have limited the default charges for such loans, they are still considerably above alternatives such as local credit unions.
- 3.5 The ethos of the credit union is to provide banking facilities owned by the local community to provide affordable services and support to all. Therefore this facility is one to develop for all of our residents and to ensure the whole community feel they can access and utilise services, whilst supporting those with particular need.
- 3.6 The timing of the provision of additional services is critical as in the coming months many residents currently receiving support from a number of welfare benefits move onto the new single Universal Credit scheme, administered by central government. In summary this will mean;
- the centralisation of all means tested welfare benefits under one title, universal credit (UC).
 - residents who are entitled to more than one benefit and currently receive multiple payments from different sources will be assessed through a single assessment and single payment mechanism.

- residents will receive a single payment into a bank account each month, which is paid monthly in arrears
- there will be a need to support residents through this transition and the impact that this may have on their financial stability
- the Council have worked closely with (JCP) and developed a referral system, where it aims to identify vulnerable residents with medium or high support needs. These are residents who could be at risk of eviction, be in arrears, in debt or need assistance in financial management
- a team of personal budgeting support officers are in place to support residents and prevent crisis. Officers work with the whole family to deliver a tailor made, holistic support package on a variety of issues. Achieving financial stability includes support in opening and managing a bank account, budgeting support and debt advice as well as pathways to employment

3.7 As one of a number of workstreams to support this commitment the council has considered the best option and approach to develop a local credit union facility that meets the needs of residents and has capacity to grow and support demand in the coming months and years. It has identified a number of key criteria to ensure the service is fit for purpose;

1. Accessibility and timeliness of access to services,
2. An approach that supports financial management and savings to reduce the requirement to borrow,
3. Basic banking facilities such as accepting electronic payments and providing a payment card for all of the community,
4. Affordable lending to provide an alternative to payday lenders
5. Additional support and budgeting service for residents with more acute need.

3.8 Croydon already has an active Credit Union service, with over 3,000 members that provides a service already integrated into the Access Croydon facilities. The Croydon, Sutton and Merton Credit union as it is known covers all 3 Boroughs.

3.9 However a number of improvements were identified for that service to better meet local demand and need and therefore the council worked with the Board and its management team to ensure it could work together effectively to provide the right service.

4. AGREED WAY FORWARD AND INITIAL STEPS

4.1 That work has now culminated in the following key actions being agreed to ensure the service can align and support the approach being taken by the council to support Croydon's residents and to address the specific pressures seen now and expected in the coming months and years;

1. The delivery of the new website and provision of online membership, accounts and automated service facilities (live 2015),
2. Improved governance to continue to develop the service including the provision of 3 corporate members from Croydon onto the organisations board (initial steps in place Feb 2016).

3. A review of the current management structure and key skills to deliver the new service offer and future development (underway),
4. Improved marketing to ensure those most needing support are aware and able to access services. Including the re-branding of the service to “Croydon Plus”(launched 4th Feb 2016)
5. Provision of a bank account offering payment cards, mobile banking and basic payment facilities
6. Further integration of the Credit Union service into the councils Access Croydon service, Gateway facilities and staff options (for those living in Croydon, Merton or Sutton).
7. The delivery of Jam Jar accounts to support specific residents in need of further support and aligned to the council’s Gateway service. (When a member opens their Jam Jar Account, they will agree to have any benefits they may be receiving paid straight into the account which will then manage the funds, settle household bills, pay off debts and, at the same time, squirrel away a small percentage as savings.) (pilot underway Feb 16)

4.2 To enable this Croydon Council has committed to;

1. The councils webservice provider (TSO) has updated the webpage design and information free of charge,
2. A payment of £25,000 has been made to support the delivery of on-line banking and membership services and jam jar
3. A ring-fenced loan of £100,000 has been made to assist the organisation to meet financial ratios required under the regulation set by the PRA

4.3 With the provision of these new services the re-launched Credit Union service business plan details that its new service offer will see the following support provided for local people across the 3 boroughs

	Current (Nov 15)	Expected 2018
Membership	3,252	6,000
Junior members	164	330
Loans o/s	923	1,595
Pre-loaded cards	0	500
Jam Jar accounts	0	500

4.4 Whilst the developments outlined above are in most cases still in their infancy the new online facilities have already seen (in the period 21/1/16 to 29/2/16) over 190 accounts registered for on-line services, 72 new member applications and 37 loan applications. During 2014/15 the service saw 210 new members (net)

4.5 Once the service and associated technology is further tested and proven and has the basic facilities in place we expect to identify a number of other opportunities working with registered social landlords and other partners to provide holistic services to support residents into independence and financial stability.

5. CONSULTATION

5.1 There is no further consultation required

6 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

REVENUE AND CAPITAL CONSEQUENCES

- 6.1 As detailed in the report funding has been provided as detailed above
1. £100,000 ring-fenced loan for a period of 3 years at 1% interest
 2. One-off £25,000 for set-up costs
- 6.2 The £100,000 loan will be treated as a debtor in the council's accounts and based on the business plan being put in place by the Credit Union it should be able to be repaid in 3 years time. This transaction will have no impact on the council's budget other than providing a small amount of interest over the 3 years.
- 6.3 The £25,000 contribution is funded from earmarked reserves.

RISKS

- 6.4 There is a risk that the Credit Union will not deliver against its business plan. The steps outlined in the report should mitigate this risk. Any small change to anticipated surpluses will only slightly delay the repayment of the loan.

Approved by: Richard Simpson, Assistant Chief Executive (Corporate Resources and Section 151 officer)

7. COMMENTS OF THE BOROUGH SOLICITOR AND MONITORING OFFICER

- 7.1 The Council Solicitor comments that there are no direct legal considerations arising from this report.

(Approved by: Gabriel Macgregor, Head of Corporate Law on behalf of the Council Solicitor and Monitoring Officer.)

8. HUMAN RESOURCES IMPACT

- 8.1 There are no direct or immediate Human Resources considerations arising from this report for Croydon Council staff or workers.

(Approved by: Michael Pichamuthu, HR Business Partner, on behalf of Heather Daley, the Director of Human Resources)

9 EQUALITIES IMPACT

- 9.1 The new service will provide financial facilities for residents across the borough and for all protected groups. It will specifically support those for which it is harder to access basic banking facilities and where budget management and financial stability is more difficult or acute. This is one of a number of workstreams to improve financial inclusion and support.
- 9.2 One of the council's equality objectives is to make Croydon a place of opportunity and fairness by tackling inequality, disadvantage and exclusion and this is one of a number of workstreams aimed at improving financial inclusion for people from different protected characteristics. The Opportunity and Fairness Commission identified financial exclusion as a particular issue. In addition income deprivation is a significant issue found Index of Multiple Deprivation particularly wards in the north and east of the borough. The council will ensure the access to this service is regularly monitored and will conduct a review to determine the equality impact.
- 9.3 The credit union itself will ensure its services provide appropriate accessibility and the new governance arrangements that include corporate membership on the Board from the council will assist in shaping that alongside other workstreams

10. ENVIRONMENTAL IMPACT

- 10.1 Not applicable for this report.

11. CRIME AND DISORDER REDUCTION IMPACT

- 11.1 Not applicable for this report.

12. REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

- 12.1 To advise members on the approach and expected benefits of the work

13. OPTIONS CONSIDERED AND REJECTED

- 13.1 When deciding on the best approach to take forward it was considered as to whether to set up a new local community bank facility, to support another local or larger service or whether such facilities could be provided through mainstream banking.
- 13.2 Whilst progress has been made with larger banking providers there are a number of circumstances where they will not be able to provide the right facilities and support for all customer groups and situations that need support in the current and future environment.
- 13.3 Setting up a new local facility would take considerable time and a significant investment which is estimated based on findings elsewhere to be 6 months to 2 years with costs of over £200,000 set-up.
- 13.4 Investing in or working with another credit union (for instance London Mutual) has also been considered. Lewisham Credit Union have been incredibly helpful in

assisting us to consider options and to ensure our approach is service and financially sound. Progressing such an arrangement with another organisation would not allow the specific local shaping and focus that investing in our current facility, which already has over 3,000 members, will allow. We would also need to reconsider the alignments currently in place with regard to Access Croydon and the current local credit union.

CONTACT OFFICER: Graham Cadle, Assistant Chief Executive – customer and transformation

BACKGROUND PAPERS: none

