

# THE HIGHLAND COUNCIL

## Resources Committee

Agenda Item	
Report No	

### Providing Access to Affordable Credit in Highland

#### Report by Head of Policy and Performance

##### **Summary**

The report provides Members with an update from a study undertaken into the best way to provide affordable credit across the Highlands. The study recommends that a pan-Highland credit union is the best way in which to provide affordable credit but that this should be part of an integrated approach that also includes financial education and pro-active money guidance. Members are asked to note the recommendations of the study and to agree that further work should continue to explore the operational and financial requirements of developing a pan-Highland credit union for the Highlands.

#### **1. Introduction**

- 1.1 The Council's Recession Action Plan includes a commitment to explore options for providing affordable credit across the Highlands. Members requested further information on this action when the up-dated Action Plan was presented to the Council meeting in March 2009.
- 1.2 Prior to the onset of economic recession the need for affordable credit in the Highlands was evidenced by:
  - lower than average household incomes at £20,700 per annum compared to £22,900 across Scotland and average pay in the Highlands is 90% of the Scottish average (£22,900) and 84% of the UK average (23,500);<sup>1</sup>
  - seasonal employment is a particular issue across the region along with part-time employment;
  - current average debt presented by money advice customers in Highland is £13,500 per annum and in 2007-8, £14.5m of debt was recorded by all those approaching services in the Highlands for assistance<sup>2</sup>;
  - costs of living and transport are higher for people living within rural areas and the lack of access to key essential services such as banking, post offices, cash machines and financial advice is significant.
- 1.3 There are currently only two credit unions operating across Highland providing affordable credit, in Lochaber and Inverness; however these do not provide coverage across the area.
- 1.4 In 2007 funding of £35,000 was secured from the DWP along with a small financial contribution from Highland Council of £3,000, to explore the feasibility of and to develop a business case for the best way to provide affordable credit in the Highlands along with

<sup>1</sup> National Statistics, *2008 Annual Survey of Hours and Earnings*, Office for National Statistics, 2008

<sup>2</sup> Scottish Government Money Advice Statistics, Highland Area 2007-8

associated financial education. The terms of reference for the study were to examine:

- the current research and the policy context relating to financial exclusion and affordable credit;
- financial services available within Highland;
- best practice examples;
- stakeholder and public experience;
- an options appraisal for the best way to provide affordable credit within the Highland context.

1.5 The study was specified, tendered and commissioned. It concluded on 31.3.09. The final report will be available on the Council's website in advance of the Resources Committee meeting. This work was overseen by a multi-agency group comprising of the Council, Albyn Housing Association, Citizen's Advice Scotland, Highland Opportunity Ltd and both of the existing Highland Credit Unions in Inverness and Lochaber.

1.6 The clear recommendation of the study is that a pan-Highland credit union would be the best mechanism through which to provide affordable credit but that this needed to encompass not just the credit element but be part of a package that would address financial education and pro-active money guidance alongside it.

1.7 The study can be accessed under Current Documents at:

<http://www.highland.gov.uk/yourcouncil/committees/strategiccommittees/resources/>

## **2. Recommendations of the Study**

2.1 The study methods included a combination of desk-based research and field research in order to examine the potential need for affordable credit across the area and the options through which to provide this.

2.2 In addition to extensive stakeholder interviews and a number of focus groups, a door-to-door survey was undertaken across the area. The sample consisted of 750 residents and was drawn from urban and rural communities across the area. The research confirmed that financial exclusion across the Highlands does exist in that:

- 9% of the sample had no bank account;
- 45% reported that they did not save;
- A quarter of those currently taking some form of credit were not able to meet these payments;
- There were very low levels of awareness of the cost of debt;
- 10% reported that they had been turned down for a loan with the principle reasons for this being a poor credit history or the lack of a credit history;
- 40% of the sample indicated that they had trouble accessing affordable credit with the reasons for this being a lack of income and not knowing where to go;
- There is no mainstream credit provider providing small loans of under £1000 across the Highlands.

2.3 The evidence collated through the study, along with the evidence of financial hardship summarised in paragraph 1.2 above supports the business case for developing a mechanism through which to access affordable credit. The research included an options appraisal into what mechanism would be most appropriate to achieve this, either a Community Development Finance Initiative (CDFI) or a credit union. The study concluded that a credit union would be the best way in which to provide affordable credit

across the Highlands because it:

- delivers an affordable credit solution
- provides a sustainable solution
- promotes a culture of saving
- provides accessibility to a range of products if desired, including bank accounts and mortgages
- builds on the capacity that already exists through the credit unions operating in Lochaber and Inverness
- a range of funding sources is available for credit unions
- can provide close links to financial advice and education.

The scope of Credit Unions is detailed in Appendix 1.

- 2.4 The report recommends that a credit union would address not only the needs of people experiencing financial exclusion but that it would also encourage ethical savers. Credit union facilities could assist people experiencing unemployment, those on low incomes and the population in general.
- 2.5 The study further recommends that the most appropriate way in which to achieve a credit union would be to extend the common bond of one of the two existing credit unions. This would build on the capacity and expertise that already exists through the credit unions operating in Lochaber and Inverness. The two existing credit unions have been involved in the study through the project management group and would continue to be involved should members agree the next steps towards stakeholder mapping and full costings.
- 3.0 **Progressing the credit union option: operational considerations**
- 3.1 Operational considerations to progressing a pan-Highland credit union are as follows:
- Payroll deductions from the major public and private sector providers would be essential in ensuring that the credit union becomes self financing and sustainable whilst installing a culture of savings for employees across the area;
  - Services should take into account the specific needs of the rural population with loans being provided on a flexible re-payment terms to take account of fluctuating income and length of employment;
  - A financial institution on a pan-Highland scale cannot rely on volunteers to staff and manage the organisation. This is highlighted by the experience in Alness where the financially viable credit union closed due to a lack of volunteers;
  - The new structure should have a small set of paid staff at its core and at dispersed geographical points;
  - Given the geographical area, consideration must be given to the accessibility of services and the use of existing technologies such as Paypoint (used by the Western Isles Credit Union) or networks such as the Post Office in order to facilitate payments;
  - Awareness of credit unions and their purpose must be addressed throughout the area. Only 45% of respondents to the research indicated that they were aware of what a credit union was and there was confusion regarding its purpose;
  - The structure should include an integrated framework which provides access to affordable credit alongside money guidance and financial education. This should build on the already strong advice networks in Highland but with more emphasis on awareness raising, education and debt prevention.

## **4.0 Progressing the credit union option: financial Implications**

4.1 It is recommended that further work is required in order to provide full costings of the recommended option and detailed stakeholder mapping. However, the current study outlines indicative resource implications, should it be decided to progress a pan-Highland credit union. These resource implications include:

### 4.2 *Start up costs:*

- Start up costs are estimated at £102,500. These would include:
  - employment of a development worker for one year to conduct detailed business planning and implementation work, to scope out the operational requirements and prepare of FSA documentation;
  - IT hardware and software;
  - technology in order to facilitate access on a geographical basis;
  - publicity and awareness raising costs.

### 4.3 *Sustainability*

- Using the ABCUL Credit Union Financial Model, it is estimated that the credit union would not become self-sustaining until year 5. This would result in an operating shortfall of £361,736 for the first four years based upon a staff structure of 5 staff geographically dispersed across the area. Employee deductions would assist towards achieving sustainability by year 5 and should the predicted membership levels increase, sustainability could be achieved earlier.

### 4.4 *Low cost loans:*

- If the structure is to be able to provide small, low-cost loans without savings, finance to underwrite these loans would be required. Typically this finance has been provided elsewhere by the DWP, public and third sector organisations.

4.5 The report outlines a number of potential sources that perhaps would be suitable to source funding to progress the development of a pan-Highland credit union. These include European funding, Third Sector Credit Union Fund and the Co-operative Development Fund. It should be noted that elsewhere in Scotland where credit unions have been established, public sector bodies and third sector organisations have contributed to their development.

## **5.0 Next Steps**

5.1 It is proposed that two further strands of work are undertaken to consider what would be required for a pan-Highland credit union to be progressed.

### 5.2 *Stakeholder mapping*

- Engagement of key stakeholders in the public, private and third sectors to ascertain their views on a pan-Highland credit union;
- Engagement with potential employers/staff groups who may be enrolled as users of a credit union;
- Engagement of the existing credit unions to ascertain the possibility of extending their common bond.

### 5.3 *Detailed costings*

- A fully costed implementation plan, including any start up/preparation stage;
- Identification of start up funds and funds to support the operating shortfall in years 1-4.

5.4 It is proposed that the outcomes of these strands of work be presented to Members once completed. While the benefits of a pan-Highland credit union have been identified, the costs and requirements of developing such a credit union need to be considered more closely for the Council to consider its support for it.

## **6.0 Resource Implications**

6.1 It is recommended that the stakeholder mapping and detailed costings are developed independently and overseen by the partnership group with involvement of staff from the Council's Finance Service. Funding of up to £6,000 is available from the Chief Executives Services' budget .

### **Recommendation**

Members are asked to;

1. Note the recommendations of the study which identifies the best way to provide affordable credit in the Highlands is through a pan-Highland credit union.
2. Agree that further work should be taken forward to identify detailed costings and operational requirements in order for the Council to consider how it should proceed.

Signature



Designation: Head of Policy and Performance

Date 30<sup>th</sup> March 2009

Author/Reference: Cath King, Policy Manager and Alison Clark, Policy Officer

### **Appendix 1 –**

Extract from Feasibility Study into the Best Way to Provide Affordable Credit in Highland – Subsection on Credit Unions

## **Appendix 1**

### ***Extract from Feasibility Study for Highland into the Best Way to Provide Affordable Credit***

#### ***Section 4.1 Availability of Financial Services***

##### **4.1.5 Credit Unions**

There are 72 credit unions in Scotland with a total membership of 165,149<sup>i</sup>. Many of these credit unions are based on relatively small geographic areas such as urban districts, although some also cover large geographic areas such as Scotwest or densely populated areas such as Glasgow Credit Union.

Credit unions, in their most basic form, offer members access to loans and savings facilities. However, credit unions have expanded their product portfolio considerably and some are now able to offer mortgages, current accounts and insurance products.

The principle behind a credit union is that members pool together their savings which then provides the funding from which loans can be made. Because of the importance of savings to a credit union's sustainability, it is vital that credit unions actively market the benefits of saving which in turn, can benefit society as a whole as the awareness of saving and its associated benefits grows.

A credit union is managed by a volunteer Board of Directors who are elected by the membership and can be run on a day to day basis by either volunteers or paid staff.

Credit unions are regulated by the Financial Services Authority and members' savings are protected by the Financial Services Compensation Scheme, which means that members will be compensated for any loss of savings if the credit unions folds.

Credit unions draw their members from a 'common bond'. The common bond can be based on a geographic area, an employer or trade association. Recent legislative proposals could lead to further flexibility in a credit union's common bond, allowing it to draw members from a broader geographic area or for businesses as well as individuals to be eligible for membership. At present businesses cannot be members of a credit union, membership applies only to individuals.

There are currently two credit unions operating in the Highlands, one in Inverness and one in Lochaber.

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<sup>i</sup> Sourced from ABCUL website  
<http://www.abc.ul.org/page/members.cfm>