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To: Economic Development Cabinet Committee

23 January 2014

Subject: KENT SAVERS CREDIT UNION AND LINKAGES TO TRADING
STANDARDS LOAN SHARKS PROJECT.

Classification: Unrestricted

Electoral Division: All Divisions

Summary:

This paper provides background to the two presentations to the Cabinet Committee by Kent Savers Credit Union which provides affordable financial services, including help for those who may be financial excluded and by KCC Trading Standards with regard to its Loan Sharks Project. This paper includes contributions from Kent Savers and outlines the Credit Union's current situation and recent developments locally and nationally. The link to supportive activity within KCC Trading Standards and other help that KCC can give is also outlined.

Recommendations

The Economic Development Cabinet Committee is recommended to:

- i. **RECEIVE** this report for information
- ii. **RECEIVE** presentations to the Committee
- iii. **NOTE** and **DISCUSS** the progress of Kent Savers and joint working with KCC Trading Standards

1. Introduction

- 1.1 Kent Savers was set up as a credit union and approved by the regulator in March 2010 with £250,000 of financial support from KCC. Its role is to offer affordable and fair financial services to those who 'live or work' in Kent and Medway. This includes savings and loans to individuals who cannot access mainstream banking products. It is an independent legal entity and, like all credit unions, is regulated by the Prudential Regulation Authority and the Financial Conduct Authority previously the Financial Services Authority.
- 1.2 A place on the Kent Savers Board for KCC is currently being explored and the Supervisory Committee (a Prudential Regulation Authority required scrutiny body) is chaired by KCC's Head of Financial Services who sees all papers and also attends Board meetings.
- 1.3 KCC has continued to take a close interest through the Cabinet Member for Economic Development and his officers. Meetings have been held with Kent Savers to discuss the long term development of the business.

2. Current situation

- 2.1 Kent Savers has been successful with £1,069,000 of loans issued and deposits of £733,000. This is a major achievement and means that a substantial number of people have been kept away from high cost lenders. This would not have been possible without KCC's initial contribution of £250,000.
- 2.2 Kent Savers is a small organisation with a voluntary Board of Directors and only 3-4 employees. Most of their work is done through postal applications for loans with a high proportion of applications being unsuccessful as Kent Savers can only issue loans where there is a very strong likelihood of repayment. This is in line with most credit unions as affordability risk is a key factor.
- 2.3 The main source of income for Kent Savers is the interest which it earns on loans. Whilst the loan book is substantial it does need to grow considerably for the income to cover core running costs. Kent Savers staff, volunteer and financial resources are insufficient to support a significant marketing and promotions campaign to grow membership and increase the number of loan applications and does require resourcing.
- 2.4 Kent Savers is participating in the two year Department for Work and Pensions Credit Union Expansion Programme (CUEP) which the Association of British Credit Unions Ltd was appointed to run. This is intended to assist over 80 successful credit unions to expand by using new systems and efficient ways of working to reduce operating costs.
- 2.5 Whilst the DWP project is expected to produce a national marketing initiative this is not likely to be for some time. In the short term KCC could consider various ways to help promote Kent Savers, including easier access via the Council's website, promotion at Gateways and by encouraging savings and access to loans supported by payroll deductions as well as initiatives jointly with Trading Standards.
- 2.6 Kent's District Councils and Registered Social Landlords have only been able to provide limited financial assistance, albeit they are keen to promote the credit unions services to their residents. Kent Savers has a very small marketing budget and, not surprisingly, this results in a low public profile. In addition, the lack of a high street presence to enable the business to be seen alongside more mainstream banks and building societies may have affected the rate at which it has been able to grow.

3. Recent Developments

- 3.1 The Archbishop of Canterbury has recently been highly critical of pay day lenders and supportive of credit unions. As a result Kent Savers is now working in partnership with the Diocese of Canterbury to offer access to credit union services in the community. In addition, KCC facilitated discussions with the Diocese of Rochester in the autumn of 2013.
- 3.2 In September 2013, KCC granted the first £25,000 tranche of a £100,000 five year interest free loan. This supports the capital base and ensures that Kent Savers can look to grow and become financially free standing.
- 3.3 A more detailed update on recent developments has been provided by Kent Savers General Manager Chris Hunt:

- **Church of England**
 - Diocese of Canterbury: Held launch event in October 2013 with the Diocese of Canterbury as outlined in the News Release - forming a supporting document to this report. A community branch of Kent Savers in Murston, Sittingbourne is planned to launch in January 2014 supported by church volunteers and will offer a range of support to local people including money advice.
 - Diocese of Rochester: Met with Jean Kerr and discussed replicating work with the Diocese of Canterbury. Piloting the setting up Kent Savers in a community building in Walderslade staffed by church volunteers assisting people to open accounts prior to roll-out more widely.
- **Barclays Bank** has been working with West Sussex Credit Union and referred customers they couldn't help to the credit union. Barclays are about to replicate this arrangement with Kent Savers. There is scope for other banks to join this initiative.
- **Online membership** - Kent Savers has secured £6,000 (Unity Trust, Diocese of Canterbury, Maidstone, Swale and Tunbridge Wells BC's) for an on-line membership application service to make it simpler for people to join.
- **Credit Union Expansion Project (CUEP)**. This DWP funded project which began in May 2013 is developing credit union products/services ranging from a budget account to a common debt recovery service for all credit unions. Also, extensive market research on barriers to credit union growth and production of marketing materials to be made available soon. An automated loan assessment tool will enable credit unions to process more loans without increasing staffing and improve risk assessment. Kent Savers will go live with this tool in January 2014.
- **Growth**. Kent Savers members and shares continue to grow, but the loan book has levelled off (i.e. loans repaid every month now match loans issued). Membership is nearly 1,400 Members. The shares took a temporary decline when dividend level dropped from 3% to 1% agreed at this year's AGM as some members withdrew their savings intending to invest them elsewhere. The difference between a dividend and interest is that the interest rate would be announced in advance and paid at set times (e.g. 30th September) whereas the dividend rate is announced in arrears and is subject to a vote at our AGM.
- **Community Investment account**. Just launched this account to encourage individuals and organisations with capital to invest some of their money to help their community.

Note: whilst Kent Savers will shortly have an on-line joining facility for members and an automated system to assess loan applications as part of the CUEP project, this does not equate to having an on-line loans application system akin to that used by pay day lenders. In addition, Kent Savers does not offer short term high interest loans like pay day lenders and does not see itself as competing directly. The credit union is, however, an alternative source of affordable credit to pay day lenders.

4. Links between Kent Savers and other initiatives:

4.1 Trading Standards Loan Sharks Project

KCC Trading Standards has, for a number of years, worked in partnership with Birmingham City Council Trading Standards who have Government funding for this national project.

So far in Kent this has resulted in two prosecutions and one formal warning. There are a further six cases on-going, one of which is at a fairly advanced stage. Operational security is of paramount importance so no further details will be available until cases are concluded.

Trading Standards continues to liaise with the Birmingham enforcement team and share intelligence about possible loan sharking in Kent. Several of the prosecution cases result from this intelligence or have relied on it for their progression.

The Loan Shark Team employs a Financial Inclusion Officer (FIO) whose role is to inform, educate and gain intelligence for the enforcement teams locally. The Officer operates across the whole of the South East engaging frequently to help deliver this work in Kent. Recent examples, provided by the FIO include:

- A large campaign in Margate in May. A 'week of action' took place and it's estimated that 700 people were engaged directly and 1,000 indirectly just in this area alone. During the week there was training, meetings with key agencies including the Police, display stands in high foot-fall areas where the Community Wardens helped to speak to people and to give out and gather information. This resulted in a contact list of around 100 people and 70 different organisations in the Margate area.
- Various Registered Social Landlords (RSL) and Private Tenant Forums have been trained or received presentations and key intelligence has come from a couple of RSLs this year.
- There is scope to explore further work with Kent Savers and also Wantsum Savers in Thanet, the two Credit Unions within Kent.
- The team is planning a campaign in Schools at the end of this year, with free lesson plans being advertised to all schools across Kent.
- KCC Trading Standards successfully bid for some money seized as proceeds of crime from loan sharks. This was used to run a short education programme in secondary schools.
- Work was carried out at the time of the closure of Sheerness Steel to prevent former workers falling victim to loan sharks. This included placing food items wrapped in packaging carrying the anti-loan shark message into food parcels and also helpful contact numbers.

4.2 Potential action by the County Council with regards to Pay Day Lenders

Kent Savers can provide affordable financial services for those who, for various reasons, are suffering financial exclusion from mainstream banking. It is keen to offer an alternative and encourage people away from pay day lenders with loans over a more affordable term for its members.

At the September County Council meeting, Trudy Dean asked the following question:

'Will the Leader of the Council agree to request a report to Policy and Resources Cabinet Committee exploring what action KCC could take to limit the activities of so called Pay Day Loan Companies including:

- *banning payday loan websites from its entire computer network, including publicly accessible PCs in libraries and community centres;*
- *seeking to persuade district/borough council colleagues (through the numerous twin-hatted Members as well as by directly approaching councils) to ban payday loan advertising on billboards and bus shelters;*
- *publicly promoting credit union facilities as alternatives to payday loan companies; and*
- *banning all advertising from its property including highway land'*

In response, a paper was prepared for 6 December Policy & Resources Cabinet Committee setting out the policy context, actions currently being taken including the role of Kent Savers, actions by other authorities and options for KCC to take forward. The meeting minutes recorded that:

“(1) Mr Carter (Leader), Mr Whittle (Head of Policy and Strategic Relationships) and Ms Exall (Policy and Strategic Relationships Advisor) introduced the report which set out the current position around high-cost short-term credit providers, the proposed national changes in regulation, action already underway in Kent and some possible areas for action that the County Council might wish to explore further.

(2) A number of proposals set out in the paper were discussed including: limiting access to high-cost short term credit; promoting credit unions as an alternative provider of loans; providing information, advice and guidance on money management; working with partners to promote financial inclusion: and encouraging banks to promote easy access to basic bank accounts.

(3) RESOLVED that

(a) Mr Carter (Leader of the Council) be asked to consider formalising the policy banning advertising for high-cost short-term credit providers from all KCC-owned property;

Mr Hill (Cabinet Member for Communities) be asked to consider:

- (b) Banning access to high-cost short-term credit providers' and brokers' websites from public computers provided by KCC;
- (c) Training staff in libraries, children's centres and other frontline services to signpost to or provide money management advice and also raise awareness of the Kent Savers Credit Union via leaflets, posters and other publicity;

Mr Dance (Cabinet Member for Economic Development) be asked to consider:

- (d) Encouraging high street banks to promote basic bank accounts;
- (e) Lobbying the Chancellor of the Exchequer to review regulations relating to credit unions in particular to enable applications for loans to be decided faster;

Mr Gough (Cabinet Member for Education and Health Reform) be asked to consider:

- (g) Reviewing the Personal Health and Social Education (PHSE) curriculum to ensure that financial awareness is being promoted through schools, and young people are receiving relevant education about how to manage money.”

A recent report by KCC Trading Standards on Pay Day Lending is appended to this report. An extract from local.gov.uk announcing action by Cheshire East and Plymouth City Councils is also appended to this report.

5. Accountability, governance and management

- 5.1 Kent Savers trades as a business and is independent of Kent County Council. As such it has a Board of Directors chaired by Gail Devries. The General Manager, Chris Hunt leads a small team to run the business on a day to day basis. KCC has nominated a potential Board member. The Head of Financial Services at KCC already sits on the Supervisory Committee and regularly attends Board meetings.

6. Risks

- 6.1 The main risk to KCC is reputational. The County Council, having identified the need and then set up the credit union is closely associated with its success or failure as a business. It was for this reason, and also for the inherent benefits to Kent residents in having access to a credit union in the current economic conditions, that an additional supporting loan was recently agreed.
- 6.2 The increasing prevalence of pay day lending and the relative ease with which money can be obtained from these sources is a reflection of the significant marketing resources available compared to Kent Savers and credit unions more widely.
- 6.3 Nevertheless, it also needs to be acknowledged that the relatively controlled lending provided by Pay Day Loan companies can, to some extent, reduce the risk that some members of the public will resort to Loan Sharks.

7. Next steps

- 7.1 It is intended that KCC officers, led by the Economic Development team will continue to explore joint projects and ways to support Kent Savers in order to help the credit union develop into a sustainable business where they request it.
- 7.2 To this end an informal officer group met on 14th November 2013 to ensure a joint approach across KCC with regard to Kent Savers, Pay Day Lenders and the Loan Shark Project. Further meetings are planned in 2014.

8. Recommendations

- 8.1 The Economic Development Cabinet Committee is recommended to:
- i. **RECEIVE** this report for information.
 - ii. **RECEIVE** presentations to the Committee
 - iii. **NOTE** and **DISCUSS** the progress of the credit union and joint working within the County Council and with partner organisations.

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10. Annexes

1. Trading Standards Report on Payday Lending
2. News Release from Diocese of Canterbury October 2013
3. Extract from local.gov.uk Action by Cheshire East Council and Plymouth City Council