

REPORT FOR DECISION

MEETING: CABINET

DATE: 10 APRIL 2013

SUBJECT: DEVELOPMENT OF A BOROUGH-WIDE CREDIT UNION

REPORT FROM: CABINET MEMBERS FOR COMMUNITY DEVELOPMENT and FINANCE & RESOURCES

CONTACT OFFICER: MIKE OWEN, EXECUTIVE DIRECTOR OF RESOURCES
PAT JONES-GREENHALGH, EXECUTIVE DIRECTOR OF ADULT CARE SERVICES

TYPE OF DECISION: KEY DECISION

FREEDOM OF INFORMATION/STATUS: This paper is within the public domain

SUMMARY: This report sets out the outcome of a feasibility study that has been undertaken in partnership between Bury Council and Six Town Housing into the possibility of setting up a credit union in the borough. In particular, the report highlights Six Town Housing's plans to financially support the set up and development of the credit union, with in-kind contributions being offered by Bury Council.

OPTIONS & RECOMMENDED OPTION Cabinet is recommended to :

- Note Six Town Housing's plans to financially support the set up and development of a borough-wide credit union;
- Endorse Bury Council's support for a borough-wide credit union; and
- Endorse the proposal for Bury Council to become an Employer sponsor and offer in-kind contributions to support the credit union.

IMPLICATIONS:**Corporate Aims/Policy Framework:**

Do the proposals accord with Policy Framework? Yes.

Statement by s151 Officer:

Financial implications are set out in section 2 of the report.

Cash funding will be met from Six Town Housing reserves and any contribution from the Council will be by way of in-kind assistance.

Risks are set out in section 3.

Statement by Executive Director of Resources:

There are no additional resource implications at this stage. Proposals for the Council's in-kind support will be developed during the next stage of the feasibility study (subject to Cabinet approval to proceed).

Equality/Diversity implications:

None

Considered by Monitoring Officer:

Yes

JH

Are there any legal implications?**Wards Affected:**

East Ward

Scrutiny Interest:

Overview & Scrutiny

TRACKING/PROCESS**DIRECTOR: Mike Owen**

Chief Executive/ Strategic Leadership Team	Cabinet Member/Chair	Ward Members	Partners
	Yes		
Scrutiny Commission	Cabinet	Committee	Council
Overview and Scrutiny	10.4.13		

1.0 BACKGROUND

- 1.1 Credit unions are financial not for profit co-operatives that are owned and controlled by the members who use their services. They offer a wide range of safe and affordable financial services aimed at helping people take control of their money by encouraging people to save what they can and only borrow what they can afford to repay. Savings are amalgamated together into a pool of funds from which loans can be made. Credit unions can also offer a range of other financial products such as free life insurance, financial advice and bill paying services.
- 1.2 Credit unions have become increasingly prominent over the last decade and are viewed as a key vehicle by central government to support its financial inclusion agenda and the roll out of welfare reform. The movement has particularly grown over the last 10 years and there are now over 400 credit unions operating in the United Kingdom with almost 1 million members. Membership has almost trebled since 2000 and the sector currently looks after assets approaching £900m. Bury is the only local authority area in Greater Manchester not covered by a credit union.
- 1.3 Over the last eight months, Bury Council and Six Town Housing have undertaken a feasibility study to explore the possibilities of setting up a sound and sustainable credit union in the borough. This included:
 - Identifying the need and demand for affordable financial services;
 - Ascertaining partner support across the public and third sector;
 - Considering legal and regulatory issues and the establishment of a common bond that would achieve registration with the Financial Services Authority (FSA);
 - Assessing the appetite of neighbouring credit unions to extend into Bury;
 - Identify the indicative resources needed to support the set up and developmental stages of the credit union; and
 - Identifying the key milestones and risks involved in setting up a credit union.
- 1.4 The benefits of credit unions are well documented and the feasibility study identified the following benefits to local people, Bury Council, Six Town Housing and the wider community:
 - Better access to affordable financial services including affordable loans, particularly for those excluded from mainstream financial services;
 - Reducing the usage of high cost sub-prime credit;
 - Reducing debt and developing an ethos of saving amongst members.
 - Protecting Bury Council's rent income streams following the introduction of Universal Credits;
 - Introducing financial understanding at an early age;
 - Retention of economic wealth within the local economy; and
 - Removing barriers to work will help reduce worklessness.
- 1.5 The introduction of Universal Credits will result in benefits being paid directly to customers into a bank account and place greater responsibility on customers to budget. For Bury Council alone, this will result in rental income of £20.9 million being paid directly to council tenants by 2017, based on current rent levels.

- 1.6 This will bring significant risks to the HRA and future council income. The development of a credit union and the availability of 'jam jarring facilities' could go part way to addressing this issue, but will not mitigate against the risk posed by the Welfare Reform Act alone.
- 1.7 The market need for a credit union in Bury can be clearly evidenced, as set out in the feasibility study. The current economic climate, together with increasing levels of debt relating to every day expenses such as fuel are adding to the financial exclusion felt by many. Whilst Bury is a relatively affluent borough and does not exhibit the same levels of deprivation evident in neighbouring areas, there are significant wealth disparities across the six townships.
- 1.8 There are numerous banks and building societies in the borough, but these financial institutions neither serve nor meet the needs of low income households. Nationally, about 80% of the adult population has a bank account, with the remaining 20% having no access. This is because they either lack access to a local branch, they have difficulty maintaining savings or they would not be viewed as "credit worthy" for a loan. Over 4 million basic bank accounts have been opened since 2003, but it is unlikely there will be any further significant expansion of this service in the absence of new legislation.
- 1.9 The alternatives for low income customers are few and far between. Over the years, the credit gap has been filled by home credit, mail order catalogues and other financial products which are lawfully provided. These services focus on lending money rather than encouraging saving; with high interest rates charged or premium prices applied.
- 1.10 The feasibility study identified a high level of support for the development of a credit union in Bury from a wide range of partner organisations. Residents were also consulted as part of the feasibility study through a series of neighbourhood road shows, questionnaires and an on-line voting option via Bury Council's and Six Town Housing's websites. Over 650 responses were received during the consultation exercise, with the overwhelming majority of people who responded (86.7%) supporting the setting up of a credit union. Over 63% of the responses that were received were from Six Town Housing tenants.
- 1.11 Six Town Housing's Board considered the feasibility study at its meeting on the 27th February 2013 and agreed to financially support the set up and development of a credit union in the borough. This included supporting proposals to extend the common bond of an established credit union into Bury; as this was seen as the most effective, least expensive and least risky option available. Any such expansion would be subject to approval by the relevant credit union Board and the Financial Services Agency.
- 1.12 In terms of neighbouring credit unions, the Manchester Credit Union has undergone significant expansion over the last few years and seems to be nearer to sustaining itself without grant funding from the DWP. Locally, the Manchester Credit Union appears to offer the best option financially, capacity wise and in terms of long term sustainability.
- 1.13 A range of steps will need to be taken to set up and develop the credit union; some of which will need to be carried out prior to any application to the FSA. These steps are set out in the feasibility study. A multi- agency steering group is already established with representatives from Bury Council and Six Town Housing sitting on the steering group. This includes financial representatives from both organisations.

2.0 RESOURCE IMPLICATIONS

- 2.1 Given that Bury has not selected a credit union partner or undertaken any detailed business plan modelling, it has not proved possible to develop any detailed financial costings at this stage. This could only be done after identifying a preferred partner, agreeing a service delivery model and completing a detailed business plan.
- 2.2 Discussions with a number of credit unions have identified an indicative sum in the region of £70,000 - £90,000 would be needed over the first three years to support the set up and development of a credit union. Further funding may be required after this, dependent on the delivery of the business plan. The indicative costs are similar to the amount needed to set up a credit union in a neighbouring borough.
- 2.3 This funding would be met by Six Town Housing using available reserves.
- 2.4 Subject to Cabinet approval, it is proposed that Bury Council supports the development of the credit union by offering in-kind contributions in the form of accommodation and cash collection/withdrawal facilities. The Council can also become an Employer Sponsor by encouraging payroll deductions from staff. No financial resources are required from Bury Council to support this project.

3.0 ISSUES

3.1 Risk Management

A number of risks have been identified with setting up / not setting up a credit union in Bury. These include

- Low income households unable to access affordable financial services;
- Increased dependence on high cost sub-prime credit by low income households;
- Increased debt and use of debt advice services;
- Increased cost in chasing rent arrears and other debts owed to the Council;
- Low income households prevented from taking up work;
- Council rent income streams at increased risk following the introduction of Universal Credits;
- Leakage of money out of the local economy; and
- Reputational damage and lost revenue should the credit union fail.

Following the appointment of a preferred credit union partner, a detailed risk register will need to be drawn up outlining the key risks to the project and the control measures that will be put in place. This should include a detailed appraisal of the business plan and the potential for the credit union.

3.2 Equality and Diversity

National research has evidenced the following groups are more likely to be financially excluded:

- People living in social housing;
- Being economically inactive;
- Being in receipt of state benefits;

- Being a lone parent;
- Black and Minority ethnic households; and
- Homeless people

The market need for a credit union is clearly evidenced in the feasibility study and it is believed that the establishment of a credit union will have a positive impact on Bury's most financially excluded community members.

4.0 CONCLUSION

- 4.1 The feasibility study has confirmed that there is a gap in the local market with regard to the availability of affordable credit and other financial services for low income households. The need for banking facilities will become even more critical given the introduction of Universal Credit which will create significant risks for Bury Council. These needs could be met in part through the development of a credit union and reduce the risk of lost revenue through the introduction of 'jam jarring' facilities.
- 4.2 A credit union would also provide a range of other benefits to Bury Council, Six Town Housing and residents; many of whom suffer from financial exclusion. There will also be other benefits for local communities, as set out in the feasibility study.

**COUNCILLOR SANDRA WALMSLEY
CABINET MEMBER FOR COMMUNITY
DEVELOPMENT**

**COUNCILLOR TONY ISHERWOOD
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List of Background Papers:-

Credit Union Feasibility Study, February 2013

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