

REPORT TO: POLICY AND RESOURCES COMMITTEE

REPORT ON: DISCOVERY CREDIT UNION AND AFFORDABLE LENDING

REPORT BY: ASSISTANT CHIEF EXECUTIVE AND DEPUTE CHIEF EXECUTIVE (FINANCE)

REPORT NO: 419-2009

1. PURPOSE OF REPORT

1.1 This report outlines development opportunities available to the Discovery Credit Union and proposes a financial support package underpinned by a service level agreement.

2. RECOMMENDATIONS

It is recommended that Committee:

2.1 endorses Discovery Credit Union's participation in the Department of Work and Pension's Growth Fund programme.

2.2 approves the allocation of £245,255 in total to Discovery Credit Union over the years 2009/10 and 2010/11 subject to the agreement of a service level agreement.

2.3 agrees that Dundee City Council be formally represented on the Board of Discovery Credit Union by the Community Planning Manager

2.4 requests a financial sustainability plan from Discovery Credit Union for the period 1st April 2011 to 31st March 2014, such plan to be received no later than December 2010.

3. FINANCIAL IMPLICATIONS

3.1 The funding package of £245,255 in total to Discovery Credit Union for the years 2009/10 and 2010/11 will be met from a grant from the Scottish Government of £100,000 for the setting up of an affordable credit initiative in the third sector and £145,255 from the funding the Policy and Resources Committee previously approved for the Community Development Finance Institution (CDFI).

4. BACKGROUND

4.1 Policy Framework

4.1.1 In November 2008, the Scottish Government published Achieving Our Potential : A Framework to tackle poverty and income inequality in Scotland which sets out a range of measures to address the national target of increasing the proportion of income received by the poorest 30% of households by 2017. The Framework sets out priorities for action across the five main areas:

- tackle income inequalities
- introduce longer-term measures to tackle poverty and drivers of low income
- support those experiencing poverty or at risk of falling into poverty
- make the tax credits and benefits system work better for Scotland
- supporting partners and engaging wider society

- 4.1.2 The new Single Outcome Agreement for Dundee 2009-2012 reinforces the Council's Corporate Plan by identifying tackling inequalities as one of its four top strategic priorities.

Within the outcome "our people will experience fewer social inequalities", the Dundee Partnership has agreed to increase the number of people accessing affordable lending as part of its efforts to reduce financial exclusion, income inequalities and fuel poverty.

4.2 Local Need

- 4.2.1 The Scottish Index of Multiple Deprivation 2006 demonstrated that Dundee has almost 30% of people living in the most deprived communities in Scotland.

- 18.6% of the population of Dundee is assessed as income deprived (4th highest in Scotland)
- Dundee has 10.7% of its population assessed as income deprived and living in a national data zone within the 15% most deprived by income domain (3rd highest in Scotland)
- Dundee has 3.7% of the national share of population assessed as income deprived (6th highest in Scotland)

- 4.2.2 In a report to the Department of Works and Pensions, the Government's Financial Inclusion Task Force has identified Dundee as the seventh highest 'hotspot' in Britain in relation to the mismatch in the need for, and availability of, third sector affordable credit.

4.3 Home Credit in Dundee

- 4.3.1 In a feasibility study carried out on behalf of the Dundee Partnership in 2007, it was estimated that over 17,000 adults in Dundee use home credit supplied by companies including Provident and Greenwoods. The typical home credit customer was described as:

- of working age but not working;
- women aged 25-34 years old
- with children
- in socio-economic groups D and E
- twice as likely to have a total family income of less than £13,000
- at least 50% of users have a personal income under £13,000
- unbanked
- living in the most disadvantaged neighbourhoods of the city

- 4.3.2 The feasibility study concludes that "....

"It is precisely this group of people that can least afford to pay a high premium to access credit. Yet this group is the most likely to have no asset, and use home credit to purchase items essential to maintaining a very modest lifestyle: school items, Christmas gifts, cookers and washing machines or emergency repairs for example. Money lost to home credit companies through high interest is money lost to disadvantaged households and communities, helping the spiral of decline or inhibiting movement out of poverty and its associated risks".

- 4.3.3 Although typically, initial growth fund loans are for around £250, loans of up to £1500 are available, the table below shows a comparison of the cost of borrowing £1000 from

different sources, including a home credit company, with repayment over a typical 50 or 52 week period (each can have different repayment period policies)

| Lender | (A.P.R.) | Payment Terms | Loan Amount | Interest | Total Payable |
|---------------------------------|----------|--------------------|-------------|----------|---------------|
| Home Credit (Shopacheck) | 254.5% | £35.00 x 50 weeks | £1,000.00 | £750.00 | £1,750.00 |
| Affordable Credit (Growth Fund) | 26.8% | £21.67 x 52 weeks | £1,000.00 | £126.62 | £1,126.62 |
| Bank (RBS) | 21.4% | £92.43 x 12 months | £1,000.00 | £109.16 | £1,109.16 |
| Credit Union (Discovery CU) | 12.7% | £88.85 x 12 months | £1,000.00 | £66.18 | £1,066.18 |
| | 12.7% | £20.43 x 52 weeks | £1,000.00 | £62.14 | £1,062.14 |

Note that you need to hold a current account with the bank in order to apply for the loan. The bank will promote loan repayments on a monthly basis which incurs more interest

Discovery CU allows both, whichever suits the member and both examples are shown
Note the difference should a member pay the Shopacheck equivalent payment to Discovery CU - they would accumulate **£687.86** in their savings account

These are just indicative costs, and it should be noted that many of the people the credit union deals with would not be able to qualify for a bank loan. The Growth Fund offers a way into affordable credit for many people who would not otherwise qualify for credit. If used as a way into getting finances into better order, Growth Fund lending can provide a stepping stone towards Credit Union membership and the types of benefits illustrated above.

- 4.3.4 The figures demonstrate the value of credit available through credit unions. However, the most financially excluded members are unlikely to have savings or a good credit rating. For this reason an alternative source of affordable credit is necessary to allow credit unions, for example, to meet the needs of those most vulnerable to debt and high cost credit.

5. DEVELOPING AFFORDABLE CREDIT IN DUNDEE

5.1 Growth Fund

- 5.1.1 In February 2006, the Dundee Partnership had its first Financial Inclusion Action Plan approved by the then, Scottish Executive. It included a commitment to a feasibility study on the development of a Community Development Finance Initiative (CDFI). This study concluded that affordable credit was a desirable and achievable goal for Dundee.
- 5.1.2 Discussions took place with Scotcash, a CDFI in Glasgow, regarding the potential for expansion to Dundee and in March 2008, the Scottish Government allocated a grant of

£100,000 to support the set up costs of an affordable credit initiative in Dundee. In April 2008, the Committee approved report 251-2008 recommending the development of a CDFI for Dundee, but unfortunately, in the course of subsequent negotiations and discussions, the requirements of Scotcash (Glasgow) in terms of such things as staffing and premises etc resulted in the Dundee subsidiary not being viable.

- 5.1.3 Having subsequently ruled out a joint-working arrangement with Scotcash, the Dundee Partnership and Dundee City Council confirmed an ongoing determination to make affordable credit available in Dundee in a report to the Policy and Resources Committee in March 2009 (Report No 158-2009) when setting out a response to the Scottish Government's Framework to Tackle Poverty and Income Inequalities in Scotland. It also became clear that Discovery Credit Union was the best option for developing affordable credit in the city as a main element of the Councils Financial Inclusion Strategy
- 5.1.4 In autumn 2008, the Department of Works and Pensions announced a further phase of its Growth Fund programme which aims to broaden access to affordable credit. In Scotland it aimed to work with three local credit unions through a contract managed by the Edinburgh based Capital Credit Union. With the support of the Dundee Partnership, Discovery Credit Union expressed an interest in participating in the programme which will lend up to £200,000 per annum in Dundee in a full year.

At the end of July 2009, Discovery Credit Union had successfully met most of the criteria set by the DWP and Capital CU for inclusion in the Growth Fund project and it is hoped that a contract should be signed by DCU in time for Growth Fund lending to begin later this year.

5.2 **Discovery Credit Union**

- 5.2.1 Discovery Credit Union is a community based credit union with a common bond covering all those who live and work in the city. Membership stands at 2221 plus 1430 junior members. Its vision is to provide high quality community financial services to all who live and work in Dundee. DCU works in partnership with Dundee Energy Efficiency and Advice Project (DEEAP) by providing low cost loans to its members to assist them to afford new energy efficient white goods products. It also works with Black Minority Ethnic Groups to make its services available and accessible to these members of the community. It provides advice and assistance on investment of Child Trust Funds, and partners the Save by the Bell project to encourage saving and financial awareness in schoolchildren.
- 5.2.2 The existence of, and development opportunities offered by, Discovery Credit Union, make it the keystone of the Dundee Partnership's Financial Inclusion Action Plan.
- 5.2.3 To fully enable Discovery Credit Union to deliver the Growth Fund project while expanding its own membership and securing long term sustainability, it is proposed that a financial support package be offered by the Council on behalf of the Dundee Partnership of £245,255 in total over the years 2009/10 and 2010/11. Areas supported will include staffing, premises, IT, marketing, training and development. A sum of up to £100,000 in total will be available as affordable credit/loan guarantee facility over the 2009/10 and 2010/11. Full details are given in Appendix 1.
- 5.2.4 Underpinning the funding package will be a service level agreement and revised business and development plans for Discovery Credit Union. A further condition of funding will be the production of a long-term financial sustainability plan by 31st December 2010.

5.2.5 To provide effective liaison with the Council and to offer additional strategic and business support, it is proposed that the Council's Community Planning Manager be nominated to join the board of Discovery Credit Union.

6. POLICY IMPLICATIONS

6.1 This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management.

6.2 The provision of affordable credit makes a direct contribution to tackling poverty and deprivation.

7 CONSULTATIONS

The Chief Executive, Depute Chief Executive (Support Services), and Head of Finance have been consulted in the preparation of this report.

7. BACKGROUND PAPERS

None

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| Chris Ward Assistant Chief Executive | | 19/08/2009 |
| David K Dorward Depute Chief Executive (Finance) | | 07/08/2009 |

Appendix 1**Introduction of Growth Fund Moneys for Affordable Credit/Funding and Development of Discovery Credit Union (Period 2009/10 and 2010/11)**

| | £ |
|---|---------------|
| 1 Adaptations to Premises | 13,500 |
| 2 IT Development | 1755 |
| 3 Website Development | 2,000 |
| 4 Training - (Board, staff and volunteers) (2009/10) | 2,000 |
| 5 Business Plan and Marketing Plan Development (2009/10) | 10,000 |
| 6 Banking/Card solution start up costs (2009/10) | 50,000 |
| 7 Staffing (2 years at £33,000 per year) | 66,000 |
| 8 Affordable lending/credit and/or loan guarantee fund (over 2 years) | 100,000 |
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| | <u>245255</u> |