



TACKLING FINANCIAL EXCLUSION

Board Meeting – 3 June 2004

1. PURPOSE OF REPORT

- 1.1 To present to Board members for consideration, information regarding the service provision available in the north of East Ayrshire in respect of debt management and credit unions, and the problems encountered by individuals around illegal money lending.

2. BACKGROUND

- 2.1 Members of the Board previously expressed concern about the difficulties experienced by individuals living in the north of the authority in respect of debt and financial exclusion.
- 2.2 Many people living on a low income in East Ayrshire experience financial exclusion and some of the problems faced by these individuals include:
 - limited access to mainstream credit;
 - vulnerability to borrowing from illegal money lenders;
 - lack of access to money advice; and
 - increased transaction costs, including cashing cheques.

3. DEBT MANAGEMENT

- 3.1 Unmanageable debt has been identified as a real problem in Scotland. As a means of addressing this issue, the Citizens' Advice Bureaux provides free, impartial, confidential and independent advice and support in relation to debt problems. In 2003, Citizens' Advice Scotland dealt with 180,000 enquiries associated with approximately £95 million debt. Consumer debt, including that associated with credit cards and store cards, accounts for 67% of all Citizens' Advice cases and many people are struggling to repay debts of almost 12 times their monthly salary.
- 3.2 Credit has become a way of life but can be more expensive for people on low incomes. It can be difficult to budget for essential items because loans for small amounts of finance are not easily available from high street banks. This can lead to people using the services of money lenders, who can provide small, short-term unsecured loans through networks of local collectors. These loans often have grossly inflated interest rates and the consequences for families and communities borrowing at such rates can be disastrous.

- 3.3 Money Advisers can provide advice on debt related matters and negotiate repayment arrangements with creditors on behalf of people experiencing problems with debt repayment. There is a team of Money Advisers working within the Social Work section of East Ayrshire Council's Educational and Social Services and the service provided is confidential and free of charge. In addition, assistance is available to individuals to ensure that benefit entitlement is maximised.
- 3.4 During the period 1 April 2003 to 31 March 2004, the Social Work section's Money Advisers provided assistance to 312 new service users whose total level of indebtedness stood in excess of £2m, with personal debts in excess of £30,000 or more not uncommon. The Money Advisers are also involved in undertaking preventative work and currently deliver specially developed Money Management sessions with local primary and secondary schools, aimed at raising pupil awareness regarding a variety of debt related issues.

4. CREDIT UNIONS

- 4.1 Credit unions are self-help savings and loan co-operatives that are owned and controlled by their members, and run on a non-profit making basis. Each credit union has a 'common bond', which determines membership. The common bond may include individuals living or working in the same area, working for the same employer or who belong to the same association, such as a trade union.
- 4.2 A credit union loan could be a more favourable option than a mainstream loan in that:
- loans have no hidden fees or transaction charges;
 - interest rates are reasonable and affordable;
 - repayments are calculated on the reducing balance of the loan; and
 - each loan is customised to suit the conditions and requirements of each member.
- 4.3 Kilmarnock Credit Union was established in 1994 and provides a range of financial services to residents of the Kilmarnock area. To join the Credit Union, each individual must present two forms of identification, pay a £2 joining fee and deposit as little as £1 to open an account. In order to qualify for a loan, individuals must have saved for a 12-week period, with first time loans allocated up to £200, and with a requirement to be repaid within one year.

5. ILLEGAL MONEY LENDING

- 5.1 Trading Standards is responsible for enforcing the Consumer Credit Act 1974, under which all lenders are licensed. The Act includes important safeguards for consumers and places stringent requirements upon lenders.
- 5.2 East Ayrshire Council's Trading Standards section has responsibility for investigating cases of illegal money lending. There are currently no investigations in process, however, this could be because people are unwilling to come forward with evidence for fear of reprisals.

5.3 The Department of Trade and Industry has funded two pilot programmes, one in Birmingham and one in Glasgow, which will see specialist undercover teams established to pursue illegal money lenders. Each team will comprise experienced trading standards officers and enforcement officers, with the Glasgow Unit covering the whole of Scotland. Staff are currently being recruited to the Glasgow team and the pilot project will operate for two years.

6. NATIONAL PROGRESS

6.1 The Scottish Executive is committed to tackling financial exclusion and problem debt by:

- extending support services to help people facing multiple debt;
- supporting the development of the Scottish Credit Union movement and community banking to ensure people have alternatives to traditional banking;
- exploring the possibility of community based insurance schemes through credit unions, particularly for areas at risk of flooding; and
- working in partnership with the Department of Trade and Industry to put an end to harassment by loan sharks, introduce fairer credit schemes and new protection from unreasonable interest rates.

7. RECOMMENDATIONS

7.1 It is recommended that the Board notes the content of the report.

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26 May 2004