



credit unions and local government working in partnership

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ABCUL
Association of British Credit Unions Limited

the co-operative party
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Information and support

ABCUL and the Co-operative Party can help you to identify a potential credit union partner and to work with them to develop a mutually-beneficial partnership.

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Foreword



We all know too many of our hard-pressed residents are being faced with invidious choices to keep their homes running. Denied access to mainstream finance, a broken washing machine, or a new school uniform can be enough to push hard squeezed families over the edge.

Having nowhere to turn to but the likes of payday lenders, high street rip-off “rent-to-own” merchants, or worse, illegal loan sharks, can mean families entering into an irreversible debt spiral that pours further hardship on budgets that are already far too tight.

Credit unions are community-based financial co-operatives, owned by members that offer fairer financial services for their members. Credit unions are not driven to make money for external shareholders but have to make decisions in the best interest of their members. As well as offering accessible and affordable loans and savings products, they can offer help and support.

If we want to tackle the menace of these unscrupulous lenders in our communities, we have to help credit unions grow as a viable alternative in the marketplace and there is a lot councils can do to help.

In Haringey we have offered our local credit union a £750,000 subordinated loan, to help improve their liquidity and enable them to increase their loan book, and thus increase their membership. In the space of two years 1500 households have been provided with loans from the credit union who may otherwise have gone to the payday lending market.

Now we are trying to help the credit union grow its savings base and its engagement with residents. Every secondary school starter in Haringey is offered a free £20 credit union account, alongside a financial awareness scheme for school children. Admittedly we have been able to do this because of the maturity of our credit union. But whatever stage you are at, local authorities can make a huge difference to the sustainability and growth of their local credit union, and with a very small amount of resource.

This guide provides example of the great work credit unions are doing across the country. I would urge you to talk to your local credit union about the difference you can make locally.

Cllr Joe Goldberg

Cabinet Member for Economic Development,
Social Inclusion and Sustainability
Haringey Council

Introduction

Credit unions and local authorities have a long track record of working together to advance financial inclusion, providing access to affordable and appropriate financial products and services to local residents.



Many of the strongest credit unions began life serving the employees of local government before extending their services – from a strong and established base – into the wider community.

Credit unions – as savings and loans co-operatives – are fully regulated deposit-takers which promote saving and provide a source of affordable credit at rates of interest which are capped at 42.6% APR – much lower than the rates charged by many alternative lenders. Individual credit unions can also provide a range of other services such as payments and budgeting support, access to insurance, wider savings account provision – such as ISAs and Child Trust Fund / Junior ISA – and even, in some cases, mortgages. All savings held in credit unions are guaranteed by the Financial Services Compensation Scheme up to £75,000 per member.

Credit unions are the best placed partners in most local government areas to support local residents to access fair and affordable financial services, in turn supporting interventions in areas such as debt, social inclusion, welfare, health and housing. This can boost economic development, increase employability and build financial skills in younger people and school-age children.

This Guide sets out some of the ways in which local government and credit unions can partner together to support local residents and how local government can support credit unions to do so.



How can credit unions support local residents?

There are a range of ways in which credit unions can work with local government to support local residents. These include:

- Providing crisis loans in replacement of social fund
- Supporting social housing tenants to pay their rent under Universal Credit
- Working with local schools to provide school savings clubs to advance financial education
- Schemes to provide affordable credit in competition with high-cost alternative lenders
- Schemes to promote saving through local government-provided matching payments
- Enhancing the financial resilience of local workers through provision of services via payroll
- Providing nationally-backed schemes, such as the proposed Help to Save product from 2018
- Supporting local start-up businesses through lending to entrepreneurs

Each credit union is an independent entity with its own priorities, capacity and specialism. It is important to work with them about how best to work together.

Working with local schools to advance financial education by providing school savings clubs

Lanarkshire Credit Union - Savvy Savers

Encouraging a generational improvement in financial capability by nurturing a shift towards saving

Through the Savvy Savers project Lanarkshire Credit Union is working with 85 schools, have 7500 junior members and over £700,000 has been saved by those members.

Originally set up with support from the council, but now with funding from the Scottish Government, they have an established model to introduce the scheme into local schools. Following an initial meeting with the Headteacher, the credit union will attend a school assembly to talk to pupils about credit unions and savings. Then to encourage ownership, pupils apply for positions within the school credit union, they go through the whole job experience of doing an application form and interview to become tellers, cashiers and supervisors. Once appointed, the pupils are given full training to open their local collection point. The credit union also seeks out parents to get involved as adult volunteers supervise the running of the collection point.

This approach goes in tandem with financial education, as the credit union feels it is important to provide constant reinforcement and encouragement of savings, otherwise engagement and saving tails off. They have an educational game that teachers can use, and are currently developing digital resources, such as video tutorials for subject areas where teachers can access ideas on how they can integrate financial education into the curriculum.

The credit union is also receiving a lot of recognition for its work with South Lanarkshire youth council (16-24 year olds). The youth council approached the credit union a year ago, to find out more about credit unions, they established a good relationship and together they have created a youth hub, within the credit union. Young people fed back that they thought credit unions were focused more on older adults, so Lanarkshire Credit Union took on board their opinions to modernise the service, revamping the reception area and putting in a dedicated youth hub, where they can meet younger people who understand their needs more. The youth council are all trained on products and procedures to disseminate information amongst their peers.

“ In the six years we have been running Savvy Savers we have children understanding the benefits of saving and the profile is growing. An impressive number of the children we first engaged with are continuing to build savings into adulthood. It's a generational shift to a savings culture”

Carolann Smillie, Chief Business Development Officer, Lanarkshire Credit Union



ALLIANCE (AYRSHIRE) CREDIT UNION LTD



Supporting social housing tenants to pay their rent under Universal Credit

1st Alliance (Ayrshire) Credit Union

Stepping up to the challenges of welfare reform through 'trusted partner' status with seven social landlords in the area

This approach, which includes South Ayrshire and North Ayrshire councils means that all staff in partner organisations have been trained on what a credit union is and what they can do. They can sign up new tenants to pay their rent direct from Universal Credit to their landlord via the credit union or to help those who are experiencing financial trouble such as with rent arrears.

There are unique arrangements which can help those tenants in arrears and facing eviction. The credit union can provide a loan to make part-payment of arrears and then going on to secure rent payment and loan repayments through benefits and wages. This tackles financial issues straight away and is credited with avoiding 35-40 evictions a year.

This approach benefits both social landlords by securing their rent payments and the tenants themselves, many of whom describe their relief at taking control of their finances

The credit union also provides budgeting accounts for people who have problems managing their money. All bills are paid by the credit union and they are given what is left as weekly spending money. Operating for about six years, this account has proved very successful, addressing the challenges presented by welfare reform such as where payment moves from fortnightly to monthly. Members have described less panic due to being able to take charge of their finances, and relief that their bills are being taken care of. They also describe how for the first time they have savings, it's not large amounts, but by being a member they have to save with the credit union.

What has worked well is that the housing associations formed a partnership and work as a collective, rather than the credit union having to deal with them individually. The credit union also provides savings and loans for the employees.

“ Our credit union is a co-operative, but that doesn't mean we are a small voluntary project. Credit unions are successful businesses working in partnership with other organisations, in this case to help many tenants manage welfare reform.”

Carol McHarg, Chief Executive

Enhancing the financial resilience of local workers through provision of services via payroll

Cardiff & Vale Credit Union

Cardiff & Vale Credit Union has a strong base in providing payroll services to employees, having originally began as the South Glamorgan County Council Staff Credit Union in September 1996. The original credit union provided services exclusively for employees of the council, but now works with over 30 employers including the local NHS Trusts, Cardiff Bus and local housing associations, with around 4,000 individual savers using a payroll scheme to save. This accounts for half of the credit union's membership.

The use of the payroll scheme provides a win-win situation to both the City Council and the credit union. The credit union is strengthened and helps local employees, and is thereby more able to support the City's vulnerable communities.

For the credit union, it is an effective way to approach a lot of people in an area who don't necessarily know about what a credit union is and what it can do for them. By working in a partnership with the council, it can promote savings and loans products more widely and effectively. For example, the council hosts some of the credit union team within the city centre hub based in Central Library and smaller hubs based on estates across the city. The details of the credit union are included on the staff intranet and payslips, especially around promotional loans to help with the costs of Christmas and holidays. The credit union visits staff rooms and canteens across the council and feature in both the council's city-wide and tenants' newspapers.

This supportive and strategic partnership, assists with the local authority's duty to promote financial inclusion and ensures support is there for low income families in the area. By promoting incentives for housing tenants to save for Christmas, it helps avoid rent arrears in December. The council has also introduced a mechanism so that any member of the public trying to access payday loan sites from council-provided public computers in libraries and community centres will trigger a warning page when accessed, and information on how to contact more affordable lenders in the area like the credit union.

“ We at Cardiff and Vale Credit Union appreciate the long established and successful partnership we have with City of Cardiff Council, for the benefit of those who live and work in the city. The strong political and practical support and understanding of the value of credit unions within the local authority has supported our growth in membership and profile across the city. With over 1,800 council staff using the payroll scheme and 20 schools providing school savings clubs, the City of Cardiff Council is one of our key strategic partners and stakeholders.

Leanne Herberg, Chief Executive



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Supporting local start-up businesses through lending to entrepreneurs

North London Credit Union

North London started as a business credit union, its common bond being based on membership of its business club or chamber of commerce. Though it has not always been an easy market to work in, the credit union has always lent to sole traders, extending this when legislation allowed credit unions to lend to incorporated businesses from 2012. North London is one of the top ten delivery partners for the British Business Bank's start-up loan programme. They provide loans up to £25,000 for businesses less than 2 year olds. The credit union makes the loan decision and finance partners hold it for them. The credit union believes the government back up of this scheme is important as the default rates can be upwards of 30%.

Given the implications of business rate reform, the growth of local business is a key area for local authorities. The scheme estimates that for every pound invested by it in micro businesses they have returned £3 to the economy overall.

The credit union is looking to re-establish its business club, London Enterprise Club. This will provide meetings, mentoring and sector specific groups.

Ever responsive to the needs of business, the credit union is also the only national provider of Sharia finance for start-ups. This allows individuals to start-up businesses whilst remaining compliant with the principles of Islamic finance. This initiative benefits from the credit union model's principles of ethical finance such as not investing in gambling or pornography.

“ High Street banks just aren't providing the services to start-up businesses at the moment. We have been providing fair loans, ethical savings and debt advice to local people in London since 1994 and are proud to be delivering nationally this essential service that allows new businesses to grow and develop.

Peter Lovell, Chief Executive



Benefits to local government from working with credit unions

Supporting a strong credit union presence in the local area to provide specific and targeted interventions to support local residents' financial resilience, can have a number of benefits for local government:

- Better access to affordable sources of credit, thereby reducing problem debt
- More financially-resilient households supporting better housing outcomes
- Economic development benefits through retained funds that otherwise would be extracted through high interest charges
- Supporting local economic development through support for entrepreneurs

How can local government support credit unions?

In exchange for providing services in the local area, local government can support credit unions in a number of ways:



Direct financial support

Financial support can take the form of grants or guarantees to support lending activity or support discrete initiatives. Councils can award grant support to credit unions to support their role. English councils have received funds diverted from the abolished DWP Social Fund which might be used for this. Innovative models are possible by underwriting credit union lending risk to maximise the reach of funding.



Support for accessing council-owned premises at reduced rents

Councils are major landlords in their areas and have the capacity to make available commercial space at low or zero rent. Many councils also have access points which would be enhanced by a credit union presence or have facilities – like cash offices with secure access – which would be suited to credit union operations.



Providing payroll services

Supporting a credit union's wider financial sustainability by making local government payroll available to take payments towards savings and loans thereby giving credit unions access to a new, more profitable membership base. Many of the strongest credit unions in Britain started life serving the staff of a local council. This benefits council staff by making an ethical and responsible service available but also the credit union by helping them reach a wider range of people.



Depositing funds with credit unions that would otherwise be invested with banks.

Council money which is not currently in use is generally invested in banks for a return. Credit unions, as fully-regulated deposit-takers, are eligible to accept deposits in the same way as banks but by doing so the council is providing funding which the credit union can lend to residents.

Discretionary business rates relief

Many councils grant discretionary business rates relief to credit unions to take away a key expense and thereby boost credit union profitability.

Investing in credit unions via subordinated debt or deferred shares

These types of investment can be treated as an asset on the local authority's balance sheet, while strengthening a credit union's capital position and helping it to grow. Given the financial pressure on councils, investing in credit union capital can allow credit unions to expand their operations while retaining the investment as an asset on the council's balance sheet which might be more attractive than issuing a grant.

Encouraging credit union provision via procurement procedures

Using procurement procedures to select suppliers to the council that will offer credit union services to their staff. In the same way that councils can lead by example by offering credit union payroll to their own staff, they can also encourage their suppliers to do the same by taking account of whether or not such arrangements are in place when inviting bids from prospective suppliers in the procurement process.

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