



**PARTNERSHIP AND RESOURCES POLICY DEVELOPMENT AND SCRUTINY PANEL**

**AFFORDABLE CREDIT UPDATE**

**REPORT BY HEAD OF FINANCE AND PROPERTY SERVICES**

**A. PURPOSE OF REPORT**

The purpose of the report is to update the Panel on:

1. The first year of trading of Conduit Scotland, which was commissioned as the preferred Community Development Finance Institution (CDFI) provider, to establish a not-for-profit lending operation in partnership with Fife and Falkirk Councils.
2. The work of the two local credit unions: Blackburn, Seafield and District Credit Union and West Lothian Credit Union which offers credit and saving products across the county.

Both services are part of the Community Planning Partnership's Anti-Poverty Strategy and contribute to Outcome 5: low income households are able to access services and are socially and financially included.

**B. RECOMMENDATION**

The Panel is asked to note the contents of the report and in particular:

1. £589,518 has been loaned to 1,179 financially excluded individuals through the CDFI;
2. The utilisation of new technology to support widening access to affordable credit; and,
3. The valuable contribution Blackburn, Seafield and District Credit Union along with West Lothian Credit Union are making to improve financial inclusion options for low income families.

**C. SUMMARY OF IMPLICATIONS**

<b>I</b>	<b>Council Values</b>	Focusing on our customers' needs; being honest, open and accountable; providing equality of opportunities; making best use of our resources; working in partnership
<b>II</b>	<b>Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)</b>	Local Government in Scotland Act 2003, section 20, and related statutory guidance – will secure the advancement of the economic and social well-being of affected and eligible residents

<b>III</b>	<b>Implications for Scheme of Delegations to Officers</b>	None.
<b>IV</b>	<b>Impact on performance and performance Indicators</b>	Performance indicators have been developed as part of the Anti-Poverty Strategy.
<b>V</b>	<b>Relevance to Single Outcome Agreement</b>	Our children have the best start in life and are ready to succeed We are better educated and have access to increased and better quality learning and employment opportunities We live in resilient, cohesive and safe communities We have tackled significant inequalities in West Lothian society.
<b>VI</b>	<b>Resources - (Financial, Staffing and Property)</b>	The contribution required from West Lothian Council towards the CDFI included one off loan capital of £100,000 to be paid back at the end of the project. In addition, set up costs of £50,000 and annual running costs in each of the first three years of £40,000 from time limited funding.
<b>VII</b>	<b>Consideration at PDSP</b>	On 28 February 2017, Council Executive agreed to award the procurement contract to Conduit Scotland to deliver CDFI services.
<b>VIII</b>	<b>Other consultations</b>	None.

## **D. TERMS OF REPORT**

### **D1 Background**

The Financial Conduct Authority (FCA) along with economists and policymakers has voiced increased concerns about household debt. This increase in consumer credit comes at the same time as wages are constrained. Financial exclusion from mainstream sources of credit is an increasing problem for households that, in turn, have led to many seeking alternative high cost lenders such as home collected credit, pawn shops and payday lenders.

Carnegie UK Trust and Barrow Cadbury Trust have commissioned a number of reports setting out the difficulties faced by low income households in accessing affordable credit that is important as affordable credit reduces the cost of borrowing for those outside of the mainstream, supports financial inclusion and promotes equality and fairness. There is a significant body of evidence emerging which shows the damaging impact of unsecured debt and high cost credit on individuals, families and communities. Debt is a part of everyday life and access to affordable credit is an essential part of supporting budgets and responding to financial shocks.

An analysis of the Scottish Household Survey on the use of credit by Ipsos MORI Scotland shows that 588,000 households in Scotland have no savings; this is about a quarter of all households. 91% of households with no savings rent their home. 700,000 households in Scotland owe money on credit, store or charge cards and almost 19% said they had borrowed from unsecured sources in the past 12 months.

## **D2**      Community Development Finance Initiative (CDFI) Project

A CDFI is a social enterprise which offers affordable loans and budgeting advice and supports people to engage with other financial services, such as savings with institutions like credit unions, income maximisation, and debt management. A CDFI provides an affordable alternative to high cost short term lenders and mainstream financial service providers whom financially excluded persons cannot access. The customer base of a CDFI tends to be those on low incomes with no record of savings and who have an extremely poor or no credit rating.

Falkirk, Fife and West Lothian councils formed a consortium to improve access to affordable loans through a preferred provider, Conduit Scotland. Conduit Scotland operates four shops across the three local council areas. The West Lothian shop is in South Bridge Street, Bathgate which is open from 10.00 to 16.00 Monday to Friday. There is a call centre to take telephone applications which is open from 08.30 to 17.00 Monday to Friday. Pop-ups are available in outreach locations within the West Lothian area. Conduit Scotland's main business is responsible lending. It actively refers those who have not been successful in their loan application to other local advice and support services but will not itself deliver those services.

## **D3**      Impact of CDFI lending

Conduit Scotland commenced lending in August 2017. In its first year, it has established a shop in four localities across the three local authorities and embedded a community presence in partnership with other services in outlying areas. Conduit received 3,227 applications for loans of which 30% were converted into loans. Affordability was the key factor where a loan was declined. Conduit has lent £589,518 to 1,179 individuals. Of the total number of loans: 60% of borrowers are female, 23% are single parents, 76% have an income below £18,000 and 48% are working. The average loan value was £500 and 55% of customers had previously used a high cost lender. 78% of loans are made on-line. In West Lothian, 362 loans totalling £177,679 were agreed.

By working with Conduit, customers saved £281,404 compared to a high cost loan. Importantly, 9 out of 10 customers felt they got the help they needed and said accessing Conduit meant they did not have to access high interest credit. Over 1,000 customers were referred onto key partners for other forms of support including income maximisation, budgeting and debt management. A key outcome of this project is to help customers to improve their financial resilience and Conduit customers reported they felt they had an improved understanding of when to use credit and that they would be willing to access support or advice before things got out of control in the future. 94% of customers said they would not access high interest credit in the future.

## **D4**      Local Credit Unions and New Technology

In 2017/18, West Lothian Credit Union and Blackburn, Seafield and District Credit Union received £66,920 of funding from West Lothian Council through time limited funding. This funding was to support the development of an on-line presence through new websites, mobile apps, on-line loan application and electronic signature processes.

Most of this work has either been completed or is in the process of development with roll out expected over the coming months. Jointly, the two local credit unions have over 7,000 members with 654 new members in the last year. The credit unions have loaned £1.65m and have combined member savings of £4.17m. West Lothian Credit Union reports that 57% of members are accessing on line and both credit unions, even in this short space of time, have shown that new technology has increased access, attracted new members and made it easier for members to get a loan and, with the introduction of the other modules early this year, we should see a further rise in online activity.

#### **E. CONCLUSION**

Conduit Scotland has filled a gap within West Lothian for small amounts of credit to low income, vulnerable households whilst referring significant numbers onto further support. It is building relationships with partners to increase referrals and embed the service in local communities.

The increasing use of new technology to simplify and speed up the process of applying for and receiving a loan has supported low income families to access credit when they need it. Customers are reporting an increase in confidence in their understanding of when to use credit and are building their skills and knowledge in terms of managing their money, learning to save and become more financially included.

#### **F. BACKGROUND REFERENCES**

None.

Appendices/Attachments: None.

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