Call for Evidence: Health of the Borough

Response of Cllr Ian Wingfield, Deputy Leader and Cabinet Member for Communities, Employment and Business

1. Availability of banks and credit unions

i. Scale of the problem

Although there has been some churn, branches of high street banks in Southwark have remained relatively stable in recent years. However high streets have seen the proliferation of the payday loan shops which have grown to fill a gap in services offered by traditional banks, which are averse to lending and accepting applications from customers on low income, the unemployed and those with poor credit histories.

The Institute for Public Policy Research (IPPR) recently called for an investigation into the uncompetitive charges that mainstream banks apply to the use of unauthorised overdrafts, highlighting their view that “Payday lending, then, is only one part of a much bigger consumer credit market failure”.

Credit Unions currently provide a range of banking and credit services and cater to low income households, those who may not be eligible for typical high street loans, and individuals that require greater repayment flexibility. Whilst credit unions provide a good alternative to high street banks, they often lack products that can compete with the almost instant nature of payday lending services - surveys show that nearly 80% of payday loans are for vital necessities therefore speed is crucial.

The London Mutual Credit Union, which covers Southwark and neighbouring boroughs, offers a ‘Credit Union OK (CUOK)’ payday loan product. CUOK allow loans of up to £1000, interest is charged at 26.8% compared to circa 4,000% charged by standard payday lenders. Loans are transferred to customers within 3 working days, but can be transferred on the day for an additional charge.

There are currently 370 credit unions in the UK with over £1 billion in assets. The growth of the markets has arguably been prevented by measure such as the cap on interest rates at 2% per month; however the cap has recently been lifted to 3% and should encourage growth in the sector. The proposed cap on the level of interest that can be charged by pay-day lenders may also see the pay day loan sector shrink causing consumers to access the credit unions’ pay day loan products, in turn increasing their asset base and enabling expansion. The Treasury recently made a call for evidence to inform it plans to further expand the credit union market by removing restrictions which prevent it from competing with mainstream lenders and banks.

ii. What are we currently doing?

Southwark has a good relationship with it local credit union, The London Mutual Credit Union (LMCU) and has actively supported and publicised LMCUs services to both residents and employees, in recognition that the credit union provides a healthy and accessible alternative to other financial products available on the market. In 2014, the former Cabinet Member for Communities and Economic Wellbeing directly wrote to all Tenants & Residents Associations in the borough informing them of Credit Unions and requesting that they publicise it's services to their residents.

Southwark is at the early stages of implementing a Council Plan commitment to open a credit union account for every 11 year old in the borough with a deposit of £10. Whilst the intention of the commitment is to establish good financial habits amongst the boroughs young residents, the initiative will indirectly support the LMCU to grow its client base, with the possibility of engaging parents; therefore multiplying the number of residents accessing its services in the long and short term. The Council continue to support the LMCUs activity locally, including options to improve the accessibility of local branches and raise awareness of the services offered.

iii. Options

Local authorities and their partners could attempt to lobby high street banks in a bid to widen the services they offer to local people. However a more practical approach may be to work with individual branches, including them in local conversations regarding financial inclusion and educating them about the services that local people need; banks such as Lloyds have teamed up with voluntary organisations to deliver financial education programmes. Toynbee Hall (based in Tower Hamlets) has had an ongoing relationship with Lloyds Banking Group as part of the 'Money for Life' project.

Projects to educate front line banking staff about vulnerable customers is also a way forward – Lloyds Banking Group have recently committed to changing its practices to accommodate customers with dementia, offering a new approach to the way high street banks accommodate vulnerable groups.

Though work is ongoing to promote the benefits of credit unions, they are competing with other banking and credit services that have strong marketing campaigns, as well as established internet and high street presence. The payday lending market also effectively utilises social media and new technology through phone apps and 'hassle free' online application forms that offer an efficient and accessible service, therefore reaching out to a more tech savvy client base . The London Mutual Credit Union offers internet and mobile phone banking, however high street presence is limited and some branches are located on the periphery of main high streets and thoroughfares.

Unlike the USA, credit unions are not the natural or default banking institution for low to middle income families, and arguably credit unions in the UK are limited by the lack of marketing and reach to new customer bases – although there have been great strides in both these areas, more could be done to support credit unions in becoming the 'default' banking service, rather than an alternative when mainstream banks fail their customers. Changing the way residents understand financial services is bound to the level and quality of financial education they receive, and requires a process of educating from an early age, but also re-educating adults who may not have received financial education or experience of good money management.

2. The role of payday loan an pawn shops

i. Scale of the problem

The recent increase of pawn brokers and pay day lenders across high streets and town centres has been met with concern by local authorities, the voluntary sector, local business groups and the wider public. Although these businesses are regulated nationally, the ease at which their loans can be accessed, and in some cases their careless practices, expose the most vulnerable in our communities to debt, financial insecurity and addictive behaviour.

The payday loans sector has grown significantly over the past 10 years, from 0.3 million borrowers in 2006, to 1.2 million in 2009 and to 1.9 million in 2010[1]. According to the OFT the payday loans market was worth between £2.0 and £2.2 billion in 2011–12, up from an estimated £900 million in 2008–09. The 2011–12 figures represented between 7.4 and 8.2 million new loans.

Figures from the University of Bristol show that 60 per cent of retail pay day loan customers and 75 percent of home credit and pawn broking customers were considered vulnerable (based on age, employment status, income and ethnicity) with a growing portion of the under 25 age group experiencing significant debt as a result of pay day loans. It is evident from these statistics that the impacts of pawn brokers and pay day lenders on our high streets are far reaching and potentially undermine our commitment to a fairer future for Southwark.

Since the Consumer Credit Act 1974, consumer credit licence statistics have not identified pawnbroking separately from other types of lending. As a consequence, there are no accurate figures for the number of licensed pawn broking outlets. 2010 estimates put the figure at around 1,300 outlets, compared with around 800 outlets in 2003. There has also been a structural change in the industry in recent years; there are now seven large companies which account for about 75 per cent of all shops, with the remaining 25 per cent being small independents.

Research conducted by the University of Bristol on behalf of the National Association of Pawnbrokers found that pawn broking customers tend to be women with families who lived in social housing (either local authority or registered providers). Over half of the customers (53 per cent) participating in the research lived in households with no one in work, with many comprising of single parent households. Of those who were in employment, seven in ten customers reported to have household incomes of less than £300 per week. The research also found that pawn broker customers were more likely to use other forms of high cost credit such as pay day loans or home credit.

Unlike other forms of credit, pawn brokers are not identified separately in national data sets, making it difficult to fully assess the impact that they have on their customers. However, the industries own data, as noted above shows that like pay day lenders, pawn broker customers are drawn from vulnerable cohorts who are often experiencing financial hardship and multiple forms of deprivation.

Significant focus has been paid to pay day lenders, but less attention has been given to understanding other forms of legitimate, but high cost, forms of credit such logbook loans and door step lending. A logbook loan, or bill of sale lending, is a high cost form of credit where a consumer will offer an item of their personal property (usually a car) as security for a loan they have taken. Interest rates are routinely circa 400 per cent annual repayment rate (APR). Evidence from the Citizens Advice Bureau shows there is a particular lack of consumer protection in logbook lending which is still governed by the Bills of Sale Acts dating from the Victorian period; though the Bill of Sales Act will be reviewed in 2016. In the interim, more could be done to understand the presence of logbook loans in Southwark and tackle unscrupulous lenders.

[1] 'Payday Loans. Seventh report of Session 2013-14' Business, Innovation and Skills Committee, December 2013

ii. What are we currently doing?

Southwark has progressed a number of interventions to restrict the proliferation of the pay day lenders and pawn brokers in the area; therefore reducing the negative impact that these services may have on residents and town centres.

In October 2013, planning committee initiated the process of implementing an Article 4 Direction to withdraw the permitted development rights for certain use classes, making Southwark the first local authority in the country to take advantage of this policy. After completing the necessary consultations and evidence gathering, planning committee approved the final Article 4 Direction in March 2014. In doing so a change of use from an A3 use (restaurants and cafes), A4 (drinking establishments) and A5 (hot food takeaways) to A2 use (financial and professional services including betting shops, pay day lending shops and pawnbrokers) will require a planning application. Implementation of the Article 4 Direction cements our commitment to protecting our high streets and retaining their diversity.

On 26 March 2014, a council assembly motion was passed calling on national regulators, such as the Financial Conduct Authority, to minimise the exposure that pay day lenders have through advertising locally and nationally. The motion urged cabinet to lobby for a levy on pay day lenders and support the ‘Charter Against Pay Day Loan Rip-Offs’ which has received support from across the debt advice sector and urges government to ensure the pay day loan sector.

From January 2015, the Financial Conduct Authority will introduce a cap on the amount of interest payable on pay day loans. The cap will mean that someone taking out a typical loan over 30 days and repaying on time will not pay more than £24 for each £100 they borrow – the figure includes interest and all other charges for taking out the loan and extending its term. There will be a separate cap on default charges, and borrowers who miss a repayment or make it late can only be charged £15. Interest can still be applied after the missed payment date, but the FCA has also proposed an overall cap on costs which will prevent anyone having to repay more than double the amount they borrowed. Lenders will be able to pass on charges for debt collection but these will be included in the cap.

iii. Options

Implementing byelaws, cumulative impact policies, the use of supplementary planning documents, and advertising bans are some of the levers available to the council to prevent the expansion of the pay day lenders and pawn brokers in Southwark.

Supplementary Planning Documents (SPDs) elaborate on, and must be consistent with, the council’s planning policies in Development Plan Documents or planning policies in the Unitary Development Plan. Supplementary Planning Documents are capable of being a ‘material consideration’ in determining planning applications, but afforded less weight than the Development Plan policies. They are subject to a thorough process of public consultation and must be consistent with national and regional planning policies.

Barking & Dagenham Council are currently exploring the use of an SPD to advise on the appropriate location and concentration of betting offices within the borough. The draft SPD includes a 400 meter exclusion zone around existing betting offices to prevent clustering. Outside of this zone the suggested SPD allows proposals for betting offices where a number of other criteria are met. Barking & Dagenham

Council will take a decision on the adoption of the final SPD in September 2014.

Southwark Council could also explore the use of an SPD to limit the clusters of, pay day lenders or pawn brokers from emerging or expanding. This would entail detailed evidence gathering, such as the production of evidence studies, an informal consultation stage may be used to assist this process. Using the evidence gathered a draft SPD would then be developed and be available for public consultation. The final SPD would take into account consultation responses and may then be adopted by the council.

A byelaw is a local law which is made by a statutory body, such as a local authority, under an enabling power established by an Act of Parliament. They are laws that require something to be done, or not done, at a specific location. To determine if a byelaw is a suitable tool to prevent the spread of pay day lenders and pawn brokers, the council could assess the impact that these businesses are having on Southwark's community and then determine whether a byelaw would effectively address the findings of the assessment. For instance, if the evidence found that the marketing of pay day loans through shop fronts and billboards is particularly concerning, then a byelaw that responds this problem may be pursued.

Design and implementation of byelaws must comply with a stringent set of internal and external procedures outlined by DCLG and the council respectively. For DCLG to be satisfied that a byelaw is appropriate, the proposer would need to determine:

i. The specific local issue which the proposed byelaw intends to directly address.
ii. The precise nature, location, extent and incidence of the problem.
iii. Whether measures have been taken to address the issue.
iv. The reasons the council has that the issue is so serious as to merit a criminal offence.
v. The council must ensure that the byelaw does not duplicate or contradict existing legislation.

Again, evidence and a comprehensive understanding of the issues that pay day lenders and pawn brokers present is necessary to comply with the process of taking forward a byelaw.

Understanding which levers to pursue requires a robust local evidence base to enable targeted policies which address the specific problems and needs within Southwark. The collation of a thorough evidence base could also support the council to track long term trends and monitor the impact of interventions. Where relevant, local evidence and data will be critical to lobbying government and regulators for greater safeguards to mitigate against the negative impacts of these businesses.

3. Financial awareness in the borough

Southwark's Money Savvy Project has been running since March 2013, the 5 year Big Lottery Funded Project intends to improve the financial capability of Southwark's social housing tenants by delivering training sessions that explore financial products, and money management in the context of housing, employment and welfare benefits. Sessions are delivered in small groups and target specific communities within Southwark by working with voluntary and community organisations that engage with these groups.

In its first year, Money Savvy has been accessed by 1356 social housing tenants. Of these 142 tenants have been under 25, 417 have moved in out of the labour market, 35% of tenant were disabled or had a long term health condition, 1,214 tenants have expressed increased confidence in managing their finances following the training.

Looking forward, the implementation of Universal Credit as a new single payment for people who are looking for work or on low incomes will be one of the most profound changes of the reforms to the welfare system.

Government contends that Universal Credit will help claimants and their families to become more independent and will simplify the benefits system by bringing together a range of working-age benefits into a single payment. When introduced, Universal Credit will replace a range of benefits into a single payment, including:

- income-based Jobseeker's Allowance
- income-related Employment and Support Allowance
- Income Support
- Child Tax Credits
- Working Tax Credits
- Housing Benefit

Two fundamental differences between Universal Credit and the current welfare system are that claimants will receive just one monthly payment, paid into a bank account in the same way as a monthly salary and support with housing costs will go direct to the claimant as part of their monthly payment. The implication of this change is that residents on welfare who have trouble managing their finances may quickly get into financial difficulties and arrears with their housing costs.

In response to the anticipated implementation of Universal Credit, Southwark is working with Lambeth and Lewisham Councils to implement a Local Support Services Framework (LSSF), a coordinated package of support for residents as they transfer onto UC. Interventions will include a system of triage to quickly identify claimants who may be considered to be vulnerable and personal budgeting support to help them cope with the impact of a single monthly payment and manage their finances. The three boroughs have recently secured funding from DWP to pilot key aspects of LSSF in advance of the roll-out of Universal Credit.