

Item No. 12.	Classification: Open	Date: 22 November 2011	Meeting Name: Cabinet
Report title:		Motions Referred from Council Assembly	
Ward(s) or groups affected:		All	
From:		Strategic Director of Communities, Law & Governance	

RECOMMENDATION

1. That the cabinet considers the motions set out in the appendices attached to the report.

BACKGROUND INFORMATION

2. Council assembly at its meeting on Wednesday, 12 October 2011 agreed a number of motions and these stand referred to the cabinet for consideration.
3. The cabinet is requested to consider the motions referred to it. Any proposals in a motion are treated as a recommendation only. The final decisions of the cabinet will be reported back to the next meeting of council assembly. When considering a motion, cabinet can decide to:
 - Note the motion; *or*
 - Agree the motion in its entirety, *or*
 - Amend the motion; *or*
 - Reject the motion.

KEY ISSUES FOR CONSIDERATION

4. In accordance with council assembly procedure rule 2.10(6), the attached motions were referred to the cabinet. The cabinet will report on the outcome of its deliberations upon the motions to a subsequent meeting of council assembly.
5. The constitution allocates responsibility for particular functions to council assembly, including approving the budget and policy framework, and to the cabinet for developing and implementing the budget and policy framework and overseeing the running of council services on a day-to-day basis.
6. Any key issues, such as policy, community impact or funding implications are included in the advice from the relevant chief officer.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Motions submitted in accordance with council assembly procedure rule 2.10 (6)	160 Tooley Street London SE1 2QH	Lesley John Constitutional Team 020 7525 7228

APPENDICES

Number	Title
Appendix 1	Community response to August's disturbances
Appendix 2	Payday loans

AUDIT TRAIL

Lead Officer	Ian Millichap, Constitutional Manager	
Report Author	Lesley John, Constitutional Officer	
Version	Final	
Dated	10 November 2011	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Strategic Director of Environment & Leisure	Yes	Yes
Strategic Director of Communities, Law & Governance	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team	10 November 2011	

MOTION ON THEMED DEBATE: COMMUNITY RESPONSE TO AUGUST'S DISTURBANCES

At council assembly on Wednesday 12 October 2011 a motion on the community's response to August's disturbances was moved by Councillor Michael Situ and seconded by Councillor Rowenna Davis. The motion was subsequently amended and the amended motion stands referred to the cabinet as a recommendation.

Recommendation

- (1) That council assembly notes the letter to all members from the leader of the council on 7 September outlining tonight's theme.
- (2) That council assembly notes the disturbances and looting that took place on 8 August 2011 and condemns the criminality and lawlessness which took place across the borough. However, it further notes residents' response in the days that followed, and the action by our community to come together and repair the damage that had been done.
- (3) That council assembly believes that this community response more accurately reflects the state of the borough than the disturbances themselves, but further believes that the causes of the disturbances require a genuine and thoughtful response.
- (4) That council assembly notes the authority's ongoing "community conversations", engaging with residents on the causes of the disturbances. It calls on the leader to update members on the council's response to disturbances of the initial findings of the "community conversations".
- (5) That council assembly believes that the themed debate ought to feed into that wider "community conversations" and notes the questions contained within the leader's letter:
 - What caused the outbreak of disturbances and looting in Southwark?
 - What caused the community to respond in the positive way that it did?
 - What can we all do to continue to build our civil society in Southwark?

Council assembly calls on all members to contribute their views on those three questions in the debate. It calls on the cabinet to take those views on board, to feed them into the ongoing community conversation and to feed back to council assembly on what action will be taken following the community conversations in no more than six months.

- (6) That council assembly calls on cabinet to ensure feedback from the council's community conversations informs how we can create a fairer future for all in Southwark.

PAYDAY LOANS

At council assembly on Wednesday 12 October 2011 a motion on payday loans was moved by Councillor Martin Seaton and seconded by Councillor. Kevin Ahern. The motion was subsequently amended and the amended motion stands referred to the cabinet as a recommendation.

Recommendation

- (1) That council assembly notes the large number of “payday loan” shops in the borough; particularly in Peckham and on the Walworth Road.
- (2) That council assembly notes that the interest rates charged on these loans can often be in excess of 2000% meaning that the average borrower ends up paying far more than the original cost of the loan.
- (3) That council assembly believes that charging such large interest rates on loans to often financially vulnerable people is exploitative and takes money away from individuals and families at a time when the cost of living is rising.
- (4) That council assembly also notes that many lenders use underhand means to lure consumers into automatic loan renewals, fail to disclose the true cost of the loan, or use other usurious tactics to sink consumers in a quagmire of debt.
- (5) That council assembly believes lending of this kind is both socially and financially irresponsible and a scourge on our communities. It condemns the prevalence of these businesses on Southwark high streets and calls for alternative low cost loans to be made available to our residents.
- (6) That council assembly believes this is an issue of concern to people across the political spectrum and calls for all political parties in Southwark to support and prioritise alternative affordable models of lending, particularly those provided by London Mutual Credit Union. Council assembly welcomes the proposal by London Mutual Credit Union to introduce a new affordable loan which will be available to Southwark residents and calls on all members to contribute their views on this issue.

Comments of the Strategic Director of Environment & Leisure

1. Pawn brokers and businesses who buy goods for cash for re-sale have been long established in Peckham and Walworth but an ever increasing number are also offering short term loans in order to compete with the proliferation of pay day loan companies operating both in the area and online.

2. Such businesses are subject to the provisions of the Consumer Credit Act 1974 and associated regulations. Most businesses that;
 - lend money to consumers or;
 - offer goods or services on credit or;
 - engage in certain ancillary credit activitiesare required to be licensed by the Office of Fair Trading (OFT).
3. The OFT is the UK's consumer and competition authority and is a non-ministerial government department established by statute in 1973. One function of the OFT is to ensure that licenses are only given to those who are fit to hold a licence.
4. The council also has a statutory duty to enforce some provisions of the Act (via its trading standards service), for example with regard to advertising. Officers have enforcement powers to facilitate this, for example inspection of books and documents related to the business practices and procedures. Trading Standards can also carry out visits related to licence applications when the OFT makes such a request.
5. The APR or annual percentage rate is a standard way of showing the costs of borrowing expressed in annual terms. It is designed to enable consumers to compare the cost of credit and is most effective when comparing similar types of credit over similar periods.
6. For small loans borrowed over short terms the initial total charge (in pounds) may appear affordable but, due to the duration of the loan, and the high charge relative to the loan value, the calculation of the APR results in incredibly high figures.
7. The APR calculation includes upfront fees charged by the lender but will not take into account increasing costs if the borrower is unable to repay the loan on time and 'rolls' on the loan for longer than the original period.
8. The cost of short term loans are high due to their unsecured nature and the greater risk of default. Typically 30% of borrowers are defaulting on such loans.
9. Advertising regulations require the APR, and other information, to be made clear to potential borrowers and local authorities enforce these regulations.
10. The Consumer Credit Act regulates the way such businesses operate. For example, there are rules on advertising, pre-contract disclosure, credit agreements and post-contractual information. However there is no cap on the interest rate that may be charged.

11. Irresponsible lending is one of the business practices which the OFT may consider to be deceitful or oppressive or otherwise unfair or improper when considering a persons fitness to hold a credit licence.
12. In March 2010 the OFT published guidance for creditors on irresponsible lending. This was intended to provide greater clarity for businesses and consumer representatives as to the business practices that the OFT considers constitute irresponsible lending practices. The guidance was revised in February 2011 and sets out the standards the OFT expects from businesses engaged in lending if they are to be considered fit to hold a licence. It covers the entire lending process from the initial lending decision up to the handling of arrears and defaults.
13. When a business is found to be engaging in activities which are found to be contrary to the license conditions, the matter may be referred to the OFT who may impose requirements on the company, vary or limit or revoke the licence. It can also impose a financial penalty.
14. Local authorities currently don't have particular powers to stop companies from opening pay day loan shops in their high streets.
15. London Mutual Credit Union (formerly known as the Southwark Credit Union) is a financial co-operative for members who live and/or work in London Boroughs of Southwark or Lambeth. The credit union does offer a variety of short term loans and savings schemes but is also due to launch a pay day loan type product in January 2012. This will have a much lower interest rate than typical pay day loan providers.
16. This facility has been set up because increasing numbers of their members, both working and those on benefits, are known to be taking out pay day loans and getting into financial difficulty. Pay day loan companies tend to take their entitlement via debit card payment very quickly and some members have been left struggling with little or no money to live on.
17. It is hoped that the service will encourage greater take-up of membership, savings encouragement and the use of more appropriate loan services.
18. The practice of rolling over debts is particularly pernicious. The credit union facility will allow customers to pay back over 3 months. If they miss a month the loan will be extended by another however the interest will still accrue at 26% APR. There will be no other charges for missing a loan repayment.
19. While considering this to be an essential service the credit union has limited funds to offer this type of facility.
20. Southwark Credit Union board view is that they are disgusted at the way these companies affect the poorest in the community. But, while there are no other services which offer fast, short term, high risk loans, people will turn to them when they need money urgently.

21. The credit union have been lobbying both the current and the previous Government through their trade organization ABCUL. A number of well-known private equity funds provide backing for the major pay day loan providers while the London Mayor accepted a sponsorship from Wonga to pay the New Years Eve London transport costs last year.
22. The council continues to work with the credit union to support awareness of the services it offers which include affordable loans, a current bank account and a savings account. Specific activities include:
 - Mail outs of credit union leaflets to all Southwark tenants and leaseholders with rent and service charge statements
 - Partnership through the Southwark Financial Inclusion Forum with advice agencies, housing providers and community organisations
 - Attach publicity to council staff payslips
 - Liaison with housing when members have rent arrears or face eviction
 - Manage the home loss prevention fund
 - Outreach at community events
 - Communications to increase awareness of the services on offer.
23. The credit union plan to run a high profile marketing campaign to promote their new product. They may also enter into a partnership with Lambeth Council who are supportive of the proposals.
24. Section 69(5) of the Weights and Measures Act 1984 permits the council “to provide advice to or for the benefit of consumers of goods and services within the area of the authority”. The Trading Standards Service is in liaison with the council’s communications team and is seeking to arrange information on the issues of pay day loans, and their alternatives, to appear in appropriate media - including the next edition of Southwark Life.