



DERBY CITY COUNCIL

i) THE DEPUTY LEADER and ii) COUNCIL CABINET MEMBER FOR HOUSING AND SOCIAL INCLUSION

4 APRIL 2006

Report of the Community Regeneration Commission

Derby City Credit Union

RECOMMENDATIONS

- 1.1 That the Council should be assist the development of Derby City Credit Union, DCCU, by:
 - i) Providing free accommodation in a DDA-compliant location
 - ii) Carrying an article and/or free advert in Council Life so as to encourage staff, councillors and other readers to become members of the credit union
- 1.2 That the Council should facilitate assistance to 'good- cause' organisations, including the Derby City Credit Union by developing a Volunteering Strategy for staff.

SUPPORTING INFORMATION

- 2.1 The Commission had previously decided to conduct retrospective scrutiny about the establishment of the city-wide credit union. This arose from the Commission's own topic review in the summer of 2002 that resulted in 'Report 1362: Community Based Finance Institutions'. Section 11 of that report, which had recommended a city-wide credit union be established, was reproduced for the meeting.
- 2.2 Rebecca Hunter, Chief Executive, attended on behalf of DCCU and answered members' questions. The Financial Services Act 2002 had widened the requirement for credit union members to share a 'common bond' to include 'living or working' in a defined area. That had enabled the sentiment in favour of developing a credit union in Derby, spanning twenty years, to be realised.
- 2.3 DCCU were seeking to expand through links with a variety of private and public employers. Members as savers benefit from a dividend. Members taking out loans pay a competitive 12.7% APR. The union make loans of a much smaller size than the high street banks are prepared to make and thereby makes affordable credit available to low income households eg for domestic appliances. However credit unions are for the whole community and should not be mis-perceived as a 'poor man's bank'.

- 2.4 During the dialogue the Vice Chair asked Ms Hunter what would appear on a DCCU wish list? The answer was i) support to deal with the accounts and ii) more accessible premises - the back office is rent free but being on an upper floor without a lift is not DDA compliant.
- 2.5 Members later deliberated and wanted to offer support but without an additional call on council tax payers; the Commission therefore made the recommendations shown.
- 2.6 Recommendation 1.1 could be pursued quickly. With regard to 1.1 i) large premises are *not* required. The main need is to house the back room functions in a location where potential lenders could also be seen that is DDA-compliant for both (potential) staff and customers. Co-location with Derby Advice and or with the amalgamated Citizens' Advice Bureau/Law Centre could be beneficial.
- 2.7 With regard to 1 ii) an article and/or advert could be arranged easily. It would also be consistent with the 'all user' e-mail sent across the Council heralding the start of DCCU.
- 2.8 With regard to recommendation 1.2 members wished to make it easier to link willing volunteers among the Council's paid service with community groups who might benefit from professional skills held. This arose in relation to DCCU's unmet need for accountancy support but has much wider potential.

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Background papers:	None
List of appendices:	Appendix 1 – Implications Appendix 2 – Chapter 11 from Report 1362

IMPLICATIONS

Financial

1. Providing free accommodation may have to be treated as having a cash value for Council accounting purposes – further advice will be sought.

Legal

- 2 None directly arising.

Personnel

- 3 None directly arising.

Equalities impact

- 4 The DCCU is open to all residents and those who work within Derby's council boundary but live elsewhere. Low income residents excluded from mainstream banking services are particularly likely to benefit from affordable and small sum loans.

Corporate Objectives, Values and Priorities

- 5 Tackling financial exclusion and reducing reliance on high interest lenders **improves the quality of life in Derby's neighbourhoods**, and helps **build healthy and sustainable communities**.

REPORT EXTRACT
 COMMUNITY REGENERATION COMMISSION TOPIC REVIEW
 REPORT 1362: COMMUNITY BASED FINANCE INSTITUTIONS

SECTION ELEVEN - CREDIT UNIONS TOO?

11.1 The terms of reference of this review charged Members to also look at credit unions. One of the repeated lines of enquiry to witnesses centred on the respective strengths and services of CBFIs, like Derbyloans, and credit unions and also the extent to which they overlapped. Credit unions are governed by specific legislation and have a much longer history than CBFIs. They are also experiencing significant change. It used to be possible to set up a credit union with just 21 members with a “common bond”, although some of the largest work based unions (like some police forces) have exceeded 1,000 members.

11.2 New legislation expects a membership of at least 1,000 by the end of the first year of operation and the Financial Services Authority took on a regulatory role from 1 July 2002. This has been leading a drive to amalgamations. During the visit to Fairshare, a recent creation, it was said “If you love your (small) credit union, let go of it” and *then* take advantage of the economies of scale to market the (larger) new one. The key differences between a CBFI and a credit union are set out in Box 4.

Box 4 The differences

Credit Union	Community based finance institution
Legally set cheap loan rates – an APR of 12.68%	Loans <i>more</i> expensive than CU (but <i>much less</i> than money lenders)
Cannot borrow until 13 weeks as a member (as saver)	Can borrow immediately
Membership organisation (as saver)	No members
Enables culture of savings for adults and children	No savings facilities
Cannot lend to businesses	Can lend to businesses

11.3 Members heard some anecdotal evidence that credit unions may see a CBFI as a competitor for customers. It is apparent from the differences that this is not so. The credit union APR will always be cheaper than the CBFI so credit union members will not be attracted to CBFI loans. The CBFI can assist those unable to save and/or those unable to wait the 13 weeks before accessing a loan. The CBFI can also lend to businesses whilst the credit union cannot.

11.4 Members heard that one of the great virtues of credit unions is their scope to re-engender a savings culture, in Great Britain this was said to have been largely supplanted by a culture of borrowing. The savings habit also allows a credit record to be built up that might later enable those hitherto excluded to access high street bank services.

11.5 Given the financial exclusion discussed in Section 1 Bob Paterson neatly explained the difference that “credit unions are a step up the ladder, CBFIs are a step onto the ladder”. 11.6 Members therefore concluded that there is space for both the Credit Union and CBFI and, whilst there is overlap, they have distinctive roles with CUs being able to re-engender a culture of saving which Members concluded as being to the wider benefit to society

Recommendation 18

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11.7 A “common bond” might be based, for example, on residence or employment. There is one functioning credit union in Derby with a common bond based on a community centre and it must of course decide its own future. There is a steering group to create a South West Derby Credit Union. As members conclude that access to a credit union is *virtuous*, it should not be the subject of a post code lottery, but one new one should cover the whole city and, in addition to all residents, also be open to those working in Derby but living elsewhere. This also offers the maximum chance that the 1,000 members threshold can be met within a year of operation *and* avoids duplication of effort in establishing parallel machinery for different parts of the city. The City Council should repeat the energetic role it has performed over the creation of the CBFI to ensure this happens. The main difference will be that, while the CBFI could be developed on an essentially “top>down” basis, the credit union will also require a “bottom>top” membership and capacity drive.

Recommendation 19

A “live or work” Credit Union should be established for Derby and work on this should begin as soon as possible – the City Council should repeat the energetic role performed over creation of the CBFI to ensure this happens