

## **Welfare Reform (Further Provision) (Scotland) Bill**

### **Call for evidence from the Scottish Parliament's Welfare Reform Committee**

Submission from the Association of British Credit  
Unions Limited (ABCUL)

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## Executive Summary

The Association of British Credit Unions Limited (ABCUL) welcomes the opportunity to submit evidence to the Scottish Parliament's Welfare Reform Committee. ABCUL is the main trade association for credit unions in Scotland, England and Wales. As a co-operative itself, ABCUL is owned, funded and democratically controlled by its member credit unions. The majority of Scotland's credit unions are ABCUL members, and they in turn serve the majority of Scotland's individual credit union members.

Credit unions are not-for-profit financial co-operatives owned and controlled by their members for whom they provide safe savings and affordable loans. Credit unions provide inclusive services to the whole of their communities rather than simply the better-off. Increasingly, some credit unions can offer more sophisticated products such as prepaid debit cards, current accounts, cash ISAs and mortgages.

There are currently 109 credit unions in Scotland serving around 280,000 members, holding over £210 million in savings and lending £180 million.

As has been well documented, the UK Parliament's Welfare Reform Act 2012 will make significant changes to the experience of people across Scotland in receipt of benefits. A high proportion of those affected will on low incomes, with low or no savings, with limited access to financial services, and those considered financially vulnerable.

This submission will be focused purely on the issue of Universal Credit. ABCUL believes Scotland's growing credit union movement can play a very important role in ensuring a smooth transition to Universal Credit, both in terms of helping the recipient to manage their finances, and ensuring service providers including landlords are not adversely affected by the changes.

The key points we will be expanding upon below are:

- Credit unions are well placed as service providers which can play a key role in building financial capability in the population and helping recipients of Universal Credit to manage the changes and challenges in their budgeting;
- Changes to UK credit union legislation in force from January 2012 make it much easier for credit union services to be available to every person in Scotland;
- The UK Department for Work and Pensions (DWP) recognises the advantages of a thriving credit union movement across Scotland, England and Wales, and an announcement is expected very soon on the details of a programme to support the modernisation and sustainability of credit unions across the country, including their ability to help people manage their money;
- Credit unions have an existing and potential future product range which can provide financial services to people currently excluded from mainstream products, both in terms of affordable credit and budgeting or "jam jar" accounts;

- These credit union products can also ensure an individual's service providers, including local authorities and housing providers, receive their payments on time – benefiting both the service provider and the individual, who does not need to worry about or face being pursued for bills.

## **Building Financial Capability**

For many people, the change from perhaps several benefit payments received weekly or fortnightly to a single monthly payment of Universal Credit will be a very significant change to their financial circumstances and budgeting habits.

It is very important that due regard is given to how tight the weekly or monthly budgets are for many of the people in receipt of benefits. Such a significant change as the amount and frequency of payments could, without the necessary support and preparation, see even prudent individuals fall vulnerable to miscalculating the conversion of budgets from weekly to monthly, missing bill payments, and potentially over-spending early in the month with a shortfall towards the end.

This increased financial vulnerability could be exacerbated by the proposal to pay Universal Credit in arrears. While understanding the UK Government's arguments for this approach, it could create an unavoidable shortfall in individuals' budgets – again, including those who are prudent with their money – which many may have no choice but to fill with borrowing.

ABCUL believes it is essential that measures to build financial capability and budgeting skills are supported to assist all affected with transitioning to Universal Credit.

## **Access to Financial Services**

A key aspect of increased financial capability is ensuring people have access to appropriate financial services. It is a proudly held principle of Scotland's credit union movement that our services should be available to everyone in the community, and not just better off people who may prove more profitable customers. Similarly, credit unions are proud to treat everyone fairly, charging ethical interest rates on loans in contrast to the very high interest rates charged by most of the lenders prepared to serve people on low incomes.

As noted above, many of the people in receipt of benefits work to very tight budgets. A consequence of this is that few have any savings to fall back upon if they suffer a financial shock, such as the need to repair or replace a faulty household appliance, or to pay for special expenses such as Christmas, birthdays, school uniforms or holidays. For many, this gap is filled by taking out a short term loan, often with a doorstep lender – who typically charge anything between 272% APR and 433% APR – or increasingly using so-called “payday” lenders, accessed either in high street shops or online, whose interest rates can be several thousand percent APR and get ever higher when the loans are “rolled over”.

Such short term loan products have a deeply damaging effect on the financial wellbeing of individuals when used to fill a gap in the monthly budget, since the borrower not only needs to save the say £200 they were short in last month's budget – plus interest – to repay the loan, but they must also somehow cut back that £200 they went over budget, meaning that in order to repay such a payday loan, the borrower actually has to be £420 better off the following month. As this is highly

unlikely in most cases, there is therefore a very high risk of vulnerable individuals being trapped in a permanent and apparently inescapable debt spiral. We would be extremely concerned if the transition to Universal Credit was to prove such a financial shock for people and push them towards high cost lenders.

While credit unions are able to provide loans at ethical rates to many people – with interest on credit union loans currently capped at 26.8% APR, and many choosing to charge significantly less than this maximum – we believe the role credit unions can play in encouraging *saving* can sometimes be overlooked. It is a crucial element of financial capability that people should have some savings set aside, whether for the emergencies or special occasions mentioned above, and credit unions have a proven track record of encouraging a savings culture, including among people on lower incomes and in receipt of benefit.

ABCUL believes that credit union membership would therefore be of significant benefit to those transitioning to Universal Credit in Scotland. The ABCUL Scotland Credit Union Charter which we published prior to the 2011 Scottish Parliament Election outlined the aspiration to widen credit union membership, including a specific pledge to encourage credit union membership for every social tenant in Scotland. Our Charter was supported by MSPs from across the parties, including the Leaders of the SNP, Scottish Labour and the Scottish Conservatives, and we hope all parties will recognise the value of credit union membership and work to extend it across this group.

While almost everyone in Scotland is currently able to join a credit union (only residents of Perth & Kinross are not served at present), we recognise that the accessibility and level of service available from credit unions is not uniform across Scotland. However, we are very pleased that measures are being taken by the UK Government to help make high quality credit union services available to more people across the country.

Following years of campaigning and with broad cross-party support, the Legislative Reform (Industrial & Provident Societies and Credit Unions) Order 2011 came into force from January 2012 and loosens a number of the restrictions placed on credit unions by the previous 33 year old legislation. In this context, the most significant change is removing the requirement in establishing a credit union's "common bond" (ie, eligibility for membership) that a new member must have something in common (place of residence or employment, etc) with every other member of the credit union. While credit unions still have restricted memberships and common bonds, the new legislation allows the same credit union to combine more than one common bond. So for example, a credit union could serve anyone who lives or works in a G postcode *and* anyone who lives or works in a PA postcode. Or they could serve anyone who lives or works in an EH postcode *and* anyone who is a tenant of X Housing Association. This legislative change significantly broadens the scope for successful credit unions to offer their services to groups and areas previously underserved.

The UK Government has also expressed its intention to make a significant investment in the credit union sector to help facilitate a step-change to being more modern, accessible and sustainable providers of financial services. An announcement of the full details of this DWP Modernisation Fund is expected very soon, and we would anticipate support for credit unions across Scotland, England and Wales to work collaboratively to provide a consistent high quality product offering, including accounts to help with budgeting. ABCUL would also support any measures which may be

considered to make credit union services accessible through the Post Office network, which has over 11,000 outlets across the UK, including approximately 1300 in Scotland.

## Budgeting Accounts

We have outlined the need for greater financial education and financial capability support to help people transition to a single monthly payment of Universal Credit. With a number of existing benefits being rolled into Universal Credit, including Housing Benefit, there is a serious risk that the recipient may not appreciate that all their bills and liabilities must be met from this payment and they may unwittingly overspend on other goods. This could have a very negative effect on the individual's financial wellbeing as they may fall into arrears with rent and utilities bills, their credit rating may be damaged, and they may feel forced to turn to high cost lenders for apparent relief which could in fact become a debt spiral. However, there could also be a very serious impact on local authorities and other service providers who could be left significantly out of pocket if this proves to be the case. With Housing Benefit no longer to be paid direct to the landlord but to be paid to the tenant as part of their Universal Credit payment, we believe there is a particular risk of loss of income for social landlords.

ABCUL believes credit unions are very well placed to offer a potential solution to both sides of this challenge. Credit unions, banks and building societies are the only nominated recipients of DWP benefits on behalf of individuals, and many people in Scotland already have their benefits paid into a credit union account. A widely available account which, with the member's authorisation, ring-fences and pays rent, council tax, utilities bills, etc, while making the remainder available to withdraw and spend, could be a significant measure to mitigate any adverse impact on individuals, landlords and other service providers.

25 credit unions across the UK already offer current accounts to their members, upon which direct debits and standing orders can easily be set up, and an increasing number are offering prepaid debit cards. Credit unions are well placed then to receive a member's Universal Credit payment, process payments to landlords and other service providers, and then charge the disposable remainder to the member's prepaid or VISA Debit card. We would hope that with Government support, these more sophisticated products might soon be available through more credit unions and to more people across the country.

## Conclusion

ABCUL recognises that Welfare Reform is going to have a very significant impact on many people across Scotland, and we are keen to support measures to avoid potentially adverse affects. Scotland's credit unions are uniquely well placed to provide the financial products – savings, affordable credit and budgeting accounts – which can help build financial capability and facilitate the money management required to cope with the transition to Universal Credit. These credit union products would not only prove beneficial to individuals, but could also protect social landlords and other service providers from a potentially crippling loss of income.

We hope this information about the potential role of credit unions in the receipt and distribution of Universal Credit is of interest to the Committee, and we would be very happy to provide further detailed evidence if requested as the Committee continues its work.