

## Scottish Government Social Security Review

The consultation outlines new flexibilities in the application of Universal Credit, including the allowance for rent payments to be made directly to registered social landlords. The last time we made a submission to the Scottish Parliament about this – to the Welfare Reform Committee in 2012 – we highlighted the role credit unions could play in budgeting for those being moved onto the new benefit. We also noted the potential for relationships between registered social landlords and credit unions to guarantee rent payments are made. Recognising the potential impact of the new system on those already facing financial exclusion, the credit union sector was particularly keen to offer its support to help mitigate the impact.

Four years on and we have certainly seen some successful partnerships. First Alliance Credit Union in Ayrshire, for example, has formed successful relationships with several local housing associations<sup>[1]</sup>. However, we appreciate that the Scottish Government is keen to mitigate the impact of welfare reforms as systematically as possible, and so would not oppose any move to return to direct landlord payment.

However, we would like to emphasise that the role of credit unions in assisting those affected by welfare reform is not limited to such relationships, and our members are keen to play a more holistic role in financial capability to complement any legislative changes.

The Money Advice Service, for example, has recognised the important role credit unions play in helping those on low incomes form a savings habit, and build up a ‘rainy day’ fund<sup>[2]</sup>. The average savings held by a credit union member in Scotland is far higher than average non member. This is particularly true when a saver has access to a credit union payroll deduction scheme through their employer – a service that neither the mainstream banks nor the new wave of fintech ‘challenger banks’ are able to offer. The benefits of such schemes have also been endorsed by the Scottish Government<sup>[3]</sup>. We would therefore hope that the benefits of credit union membership can be promoted through the social security system, to encourage recipients to form healthy financial habits in the long term.

It is also worth noting that, although credit unions generally support only responsible lending, they do provide an alternative to pay day lenders and widen access to affordable credit, particularly given the recent legislative changes that have resulted in a dramatic decrease in viability of the pay day lending industry. A number of organisations, including the Carnegie Trust, have published evidence recommending that credit union access is essential to improve access to affordable credit. The Joseph Rowntree Foundation, for example, in their recent report ‘We Can Solve Poverty in the

UK’, noted *“housing associations could play a role in delivering affordable credit to their tenants, as part of a wider financial inclusion strategy, working with credit unions where possible.”*

Therefore, we would encourage the Scottish Government to continue to encourage partnerships with, and membership of, credit unions as a key element to enabling financial capability. We were particularly encouraged by the recent Fairer Scotland agenda, and hope that these priorities will continue to influence any new Social Security system.

Finally, I would like to draw your attention to the Eligible Loan Deduction Scheme, a scheme run by the DWP to encourage organisations such as credit unions to offer credit to customers who might otherwise be unable to access it at a reasonable cost. I understand that the benefits considered within this consultation are not currently within the scheme, so it will not have an immediate impact. However, in the event of further devolution, we hope that the Scottish Government will continue to recognise the scheme, to enable credit unions to continue to be able to play a key role in combating financial exclusion.

I hope that will consider this response when putting together any new system and do, of course, get in touch if you require any more information or would like to discuss any of these issues further.

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[1] <http://www.dkdo.co.uk/ayrsh/2013/08/28/six-ayrshire-landlords-team-up-with-local-credit-union/>

[2] <https://www.moneyadvice.service.gov.uk/en/corporate/media-comment-the-scottish-governments-credit-union-working-group-report>

[3] <http://news.scotland.gov.uk/News/Employee-savings-schemes-2272.aspx>