

Corporate Policy and Strategy Committee

10.00am, Tuesday, 10 June 2014

Crackdown on Legal Loan Sharks – Payday Lending

Item number	7.8
Report number	V1.4
Executive	
Wards	All

Executive summary

Payday lending has attracted considerable publicity as a result of the high rates of interest charged and the detrimental impact on consumers who access these services. It is recognised that the Council can make a significant contribution to minimise the impact of such practices.

This report sets out actions that have already been taken within the Council to reduce the impact of payday loan services to residents of the city as well as employees of the Council. The report also outlines further potential actions which could be considered if additional sources of funding are secured.

This report discharges the outstanding remits from the Corporate Policy and Strategy Committee of 11 June 2013 and the Economy Committee of 6 March 2014.

Links

Coalition pledges	P15
Council outcomes	CO10 & CO15
Single Outcome Agreement	SO2

Crackdown on Legal Loan Sharks – Payday Lending

Recommendations

It is recommended that Committee:

- 1.1 Notes this report and the actions taken to minimise the impact of payday lending;
- 1.2 Notes that any proposals to lease Council property to Payday Loan Companies will be considered by the Economy Committee with ratification from Finance and Resources Committee; and
- 1.3 Discharges the outstanding remits from the Corporate Policy and Strategy Committee of 11 June 2013 and the Economy Committee of 6 March 2014.

Background

- 2.1 The report 'Crackdown on Legal Loan Sharks' - feasibility study was referred to the Corporate Policy and Strategy Committee on 11 June 2013, Item 7.5(b) following consideration at the Petitions Committee on 3 June 2013.

The Committee agreed:

- 1) To note the report by the Head of Legal Risk and Compliance;
- 2) To recognise that the Council could make a contribution to curbing the excesses of the payday loan industry;
- 3) To agree that options for a financial literacy campaign be developed;
- 4) To agree that existing promotion and support for Credit Unions be continued;
- 5) To agree that access to payday loan websites be blocked on Council computer systems;
- 6) To agree that Edinburgh Trading Standards Service continue to support The Office of Fair Trading (OFT) enforcement actions following the compliance review of the payday loan sector; and
- 7) To agree the establishment of an Officer Working Group to take forward agreed actions including further research on the following items as per the

recommendations of the Petitions Committee and report back to the Corporate Policy and Strategy Committee within one calendar year:

- i) historic input the Council has had in setting up credit unions;
- ii) details of previous literacy campaigns; and
- iii) UK wide licence system and what further work was being undertaken to regulate this area.

2.2 The Economy Committee of 6 March 2014, in response to a Motion by Councillor Corbett, Council property – Relationship with Payday Loans, noted that a report on payday lending would come to Corporate Policy and Strategy Committee in June 2014 and requested that this report should consider options for reviewing existing lets, for not entering into future lets with payday lenders and reviewing any other significant relationships with payday lenders.

Main report

3.1 In line with Committee's previous decisions a number of initiatives to curb the activities of payday loans have been undertaken across a range of Council services. These include:

- Research on Council input in setting up credit unions;
- Removal of access to payday loan providers from Council computers;
- Support for regulation and enforcement of the sector;
- Examination of use of planning conditions and review of lets to payday lenders; and
- Review of options for financial literacy campaigns.

Historic Input by Council in setting up credit unions

3.2 The Capital Credit Union (CCU) developed from the Lothian Region Council Employees Credit Union, which was set up with the direct involvement of the Regional Council in 1989. This was rebranded in 1996 as the Capital Credit Union. As an affiliated organisation, employees of the Council can save and repay loans directly from their salary. CCU is the third largest credit union in Scotland and fifth largest in the UK with over 18,000 members and an asset base of over £21m. In addition to the CCU, which also offers membership to anyone who is resident or working in Edinburgh, the North Edinburgh Credit Union and Craigmillar Credit Union offer services to those living in their locality.

Access to Payday Loan Websites

- 3.3 Access to payday loan companies, through the Council's internal network, was disabled in August 2013.
- 3.4 Work continues to identify emerging companies and keep the list of blocked organisations up to date.

Regulation and Enforcement

- 3.5 On 1 April 2014, the Financial Conduct Authority (FCA) took over responsibility for regulating consumer credit, including payday lending, from the Office of Fair Trading (OFT). The OFT has now been disbanded. The former licensing system has been replaced by an authorisation system requiring credit providers to meet defined minimum standards, known as threshold conditions, dependent upon the type of business activity. Existing OFT Licence holders have been required to seek interim authorisation in order to continue to trade.
- 3.6 The FCA has three operational objectives:
- To secure an appropriate degree of protection for consumers;
 - To protect and enhance the integrity of the UK financial systems; and
 - To promote effective competition in the interests of consumers.
- 3.7 Detailed conduct standards for firms carrying out consumer credit activities have been developed, including examples of behaviour that are likely to contravene the principle of treating customers fairly, by:
- Targeting customers with regulated credit agreements which are unsuitable for them, by virtue of their indebtedness, poor credit history, age, health, disability or any other reason;
 - Subjecting customers to high-pressure selling, aggressive or oppressive behaviour, or unfair coercion; and
 - Not allowing customers who are unable to make payments a reasonable time and opportunity to meet repayments.
- 3.8 The FCA has substantial additional powers to those previously provided to the OFT and clearly recognises the current concerns around payday lenders. The FCA immediately announced a number of changes for the payday lenders including:
- Limiting loan roll-overs to two;
 - Restricting the number of times a firm can seek repayment using a continuous payment authority to two;
 - Requiring lenders to provide customers with information on where to get free debt advice; and
 - The intention to cap the interest rates that can be charged.

- 3.9 The FCA has also announced that it has begun a review into the way payday lenders collect debts and treat borrowers in arrears.
- 3.10 Under the previous OFT investigation regime, Council officers visited a number of payday lending businesses based in Edinburgh and reported their findings to OFT. Edinburgh Trading Standards Service will continue work with the FCA in support of their new enforcement regime, as it develops.
- 3.11 The FCA estimate that a number of payday loan companies have exited the market as a result of earlier OFT investigations. The FCA will have further opportunity to prevent inappropriate businesses trading by not granting authorised status when migrating businesses from the current interim arrangements, following the demise of the Consumer Credit Licensing Regime.

Leasing of Council Property

- 3.12 A review of the existing Council lease portfolio to payday loan companies has been completed. There is one current lease to the Cheque Centres Ltd at Ratho. This was approved by Finance and Resources Committee on 1 November 2012 and is for a period of ten years from 2 February 2013. As this is a legal contract there is no action the Council can take to terminate the agreement.
- 3.13 Any future proposals to lease property to payday loan companies will be required to be considered by the Economy Committee with ratification by the Finance and Resources Committee. This will require a suspension of delegated authority in respect of any leases to payday loan companies.

Planning Conditions

- 3.14 Planning decisions and conditions are required to be reasonable and, as previously reported, the system cannot be used to regulate matters controlled by other means, such as premises for payday lenders. As noted above, the FCA Credit Authorisation regime exists to control and regulate credit businesses. As such, it is not considered feasible to attempt to restrict payday loan shops by use of planning conditions or refusing applications for change of use.

Financial Literacy Campaigns and Advice

- 3.15 There has been no previous Council financial literacy campaign directly targeting payday lending. However, advice and support on such issues is provided in a number of ways. Debt advisers, based in the Advice Shop in the High Street, offer a drop in service for anyone requiring urgent help. There is also an appointment-based system for less urgent cases. The Council also runs debt advice surgeries across the city at various venues including Pilton, Gorgie and Central Citizens Advice Bureaus, HMP Saughton and Craigmillar's Community Ability Network. A new outreach provision in Leith at Cables Wynd House is soon to be launched which will be targeted at payday lending in particular.

- 3.16. The Council also grant funds to advice agencies in the city including Citizens Advice Edinburgh, Granton Information Centre and Community Help and Advice Initiative to provide debt and benefits advice. Working in some of the most deprived areas of the city, the Council and third sector debt advisors are able to target those most in need of assistance in relation to problem debt, including payday loans. The Council and its partners continue to raise awareness of lower cost alternative forms of credit including credit unions and banks offering basic bank accounts.
- 3.17 Library services in the city have recently begun a number of campaigns which, although not directly aimed at payday lending, support the principle of providing alternative routes to appropriate services for those in need. This includes:
- Get Online – 1 to 1 and group sessions to help people get online and transact safely with Council and government services. This service is delivered in libraries and is being extended to sheltered housing, and other community venues including the Getonline@the Multis initiative which will provide assistance and training for council tenants. Get Online is working with the Department of Work and Pensions (DWP) in Edinburgh and Citizens Advice Edinburgh to establish suitable referral for those requiring help with online benefits claims; and
 - LearnIT – Drop in and organised sessions to help people get the benefits of using the internet.
- 3.18 A strategic plan is in development that details the approach and actions being undertaken across the city to identify and mitigate the impacts of Welfare Reform. The plan includes actions to address financial literacy and develop additional options for banking and low cost credit so that the public can avoid turning to payday lenders for assistance. Targeted promotion of the Scottish Welfare Fund and more proactive advice provision and co-ordinated services are just some of the actions that will impact positively to reduce problematic payday lending.
- 3.19 Action is also underway to develop greater awareness of debt and benefits issues within the Council's Neighbourhood Support Scheme.

Future Activity

- 3.20 Appendix 1 sets out a range of additional activities that could be undertaken as part of an extended financial literacy campaign to assist residents of the city to make informed choices about their finances and access to services.
- 3.21 There is currently no budget for these activities. Sources of funding are being explored including the Scottish Government Resilience Fund and Scottish Legal Aid Board Advice Programme. Should additional funding be identified then proposals on a wider campaign will be brought back to Committee.

Measures of success

- 4.1 The measure of success will be less use of payday loans by vulnerable residents.

Financial impact

- 5.1 There are no direct cost implications from this report

Risk, policy, compliance and governance impact

- 6.1 This is an update on a policy position taken by Committee 12 months ago. In that time there have been no challenges to the policy and the steps taken are consistent with other local authorities.

Equalities impact

- 7.1 The Council's proposed targeted support for those likely to be drawn towards Payday Loans and support for the FCA's enforcement efforts evidences the Council's due regard to minimising disadvantage as a result of economic deprivation. Additionally, these actions enhance the rights to standards of living and legal security respectively.

Sustainability impact

- 8.1 There is no environmental impact arising from the contents of this report.

Consultation and engagement

- 9.1 There has been consultation across a range of service and providers in developing a response to payday lending.

Background reading / external references

[Crackdown on Legal Loan Sharks – Feasibility Study, Corporate Policy and Strategy Committee Report, 11 June 2013.](#)

[Petition received 24 December 2012, Crackdown on Legal Loan Sharks.](#)

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Links

Coalition pledges	P15 - Work with public organisations, the private sector and social enterprise to promote Edinburgh to investors
Council outcomes	CO10 – Improved health and reduced inequalities CO15 – The public is protected
Single Outcome Agreement	SO2 – Edinburgh’s citizens experience improved health and well being, with reduced inequalities in health
Appendices	1 Future Options

Appendix 1

Potential Extended Options – Financial Literacy Campaign

Issue	Actions
Data Gathering on Communities in need	Demographic profiling, using data from the Census, Edinburgh People's Survey and other sources of intelligence, is used to segment audiences and target any campaign appropriately. For example, target areas of the city where low income families and state beneficiaries are resident.
Prevention	Consider the longer-term benefits of preventative actions that may reduce the number of people seeking unsustainable credit arrangements. This could include work within schools to instil appropriate money management and a savings culture, as well as targeting groups most at risk of accessing credit e.g. social housing tenants, those in receipt of Housing Benefit and young people leaving care.
Communications	Direct mail, as well as social media, media, editorial in community newspapers and partner publications, and Council, neighbourhood partnership and other partner website. Additional community awareness events around debt and welfare benefits issues
Internal Advice Providers	Through contracted services such as housing support and home care, to consider the role that financial education can play in supporting customers to manage their personal finances and avoid the use of unsustainable credit arrangements.