

ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	Meeting:	Deputy Leader
2.	Date:	17th February, 2014
3.	Title:	Crisis Loans
4.	Directorate:	Environment and Development Services

5. **Summary:**

The current contract to provide crisis loans to vulnerable people that are Rotherham residents will end on the 31st March, 2014.

RMBC established the loan budget as part of the “fund for change” on the 1st April, 2013 and this provided the opportunity to offer a ‘crisis loan’ service in conjunction with other initiatives operated by RMBC aimed at supporting individuals and families that require financial support. “Fund for change” was established using Local Welfare Provision funding from the Government. This was allocated to local authorities to provide support to people following their abolition of loans and grants through the “discretionary social fund”.

LASER Credit Union is currently providing the crisis loan service. Applications for loans are received through the Council’s Customer Service Centre who assess the individual’s eligibility for a crisis loan. Those eligible are then referred to LASER to complete the process.

It is proposed that the current contract with LASER Credit Union is extended for a further year, 1st April, 2014 until 31st March, 2015. Having carefully considered the options in relation to providing a crisis loan service, it is felt that extending the existing contract with a contract variation as opposed to commissioning a new service is the better option. This is mainly because of the lack of service providers in the market that could meet the service requirements. Also the social fund is to end in 2015 and this will make any expressions of interest to deliver this service even less attractive. LASER Credit Union is well established and providing the crisis loan service and are able to adapt to the changes proposed in the contract variation for 2014/15.

The proposal to extend the contract with LASER for a further year has been discussed with Legal Services and given the circumstances detailed above; approval has been given to waive standing orders.

The Deputy Leader is requested to waive standing order 47 which is the requirement to commission services over the value of £50,000. Approval of this request will enable the existing contract with LASER to be extended for a full year with a contract variation without the requirement to tender the service.

6. **Recommendations**

The Deputy Leader is recommended to:

- 6.1 exempt the provision of Crisis Loans from Standing Order 47 (contracts valued at more than £50,000 should be commissioned) in line with standing order 38 (exemptions).**

7. Proposals and Details

7.1 Background

Rotherham MBC established the loan budget as part of the “fund for change” on the 1st April, 2013 using Local Welfare Provision funding from the Government, allocated following their abolition of crisis support through the “discretionary social fund”.

The fund for change, RMBC’s local welfare provision scheme, enabled interest free loans to be provided to people in Rotherham needing urgent financial assistance. This service was provided in conjunction with other initiatives operated by RMBC aimed at supporting vulnerable individuals and families in Rotherham that require financial support.

The provision of crisis loans is part of RMBC’s commitment to ensure people in crisis receive timely, holistic support to address their immediate needs and trying to prevent problems from reoccurring.

A contract was awarded to LASER Credit Union Ltd. on the 18th March, 2013 for originally six months and following approval by the Deputy Leader, this contract was extended for a further six months until the 31st March, 2014.

LASER is a not-for-profit social enterprise and is authorised by the Financial Conduct Authority and regulated by the Prudential Regulation Authority and the Financial Conduct Authority.

Given this contract will end on the 31st March, 2014, consideration has been given to the contract requirements from the 1st April, 2014 onwards in line with the demand for the service and the fact that the local welfare provision funding from central government will end in 2015 and it is unclear yet whether this funding will be replaced with anything similar.

7.2 Current Crisis Loan Service Description and Performance

Individual applicants need to be able to demonstrate the reasons why they require a crisis loan and that other options have been exhausted. RMBC Customer Service Centre currently assesses the individual’s request and the affordability of repayment. Once completed and a decision is made to offer the loan, the individual is referred to LASER.

The minimum income accepted under the crisis loan scheme is £71 per week. If the individual is not already a member, LASER are required to seek proof of identify and proof of address from the individual and to verify the information provided. LASER charges a £2 membership fee for each new member and this is paid for by RMBC. The applicant is required to sign the loan agreement and agree an affordable repayment plan. A condition of the loan is that at least one of the customer’s named benefits will be paid into the customer’s LASER account (whilst ever the loan is outstanding) to meet repayments.

The minimum amount of a crisis loan is £40 and the maximum amount is £250. An individual can only receive a maximum of 1 crisis loan in a 12 month rolling period through the crisis support Fund for Change and cannot access a second loan until the first loan has been repaid. No interest will be charged on the first crisis loan.

LASER will encourage applicants to save money, which will assist them in managing their own budget more efficiently and therefore be less dependent on crisis loans in the future.

If an applicant falls into arrears, they will be charged £5 by LASER for an arrears letter. LASER currently provide RMBC with monthly monitoring Information, including loans processed and loans in arrears. RMBC and LASER will then assess the individual circumstances and the level of arrears before determining whether any further referral to Rossendales (debt collecting agency) or the DWP's ELDS (Eligible Loan Deduction Scheme) scheme is pursued.

The target number of loans to be provided within the contract was 72 loans per week or 3,744 per year. As at 31st December, 2013 a total of 1,189 loans had been granted for a total sum of £149,744.

The reasons for the loans were:-

Reason	Number	Value
Food and Bills	836	£91,572
Electrical equipment	95	£18,560
Rent/Mortgage Arrears	58	£11,991
Emergency Cash	68	£8,863
Lost/Stolen Money	72	£7,750
Furniture	38	£6,998
Other	22	£4,010
	1,189	£149,744

Based on a monthly average of 132 loans per month with an average value of £126 the projected spend on the loans for the full year would be £199,584 from £1,584 loans.

The percentage of the overall loan value repaid currently stands at 30.41% and it is anticipated this will improve even further. The annual repayment rate is estimated at 35% against the overall projected loan figure of £199,584, providing an estimated annual repayment figure of £69,854.

7.3 Request for Waiver of Standing Orders

The preferred option in terms of delivering the crisis loan service for 2014/15 is to extend the existing contract with LASER. Therefore a waiver of standing orders is required and is requested for the following reasons:-

1. LASER has established the crisis loan provision in addition to their usual business of providing savings accounts and affordable loans. They now have a greater understanding of the client group they are providing loans to for the 'crisis loans' contract and the potential volatile situations that can occur.
2. A good working relationship with LASER has been developed and will enable flexibility in the delivery of the contract to continue to meet the needs of vulnerable people in Rotherham.
3. A requirement of the contract is that the provider must be an established credit union with access to the service being available locally in the town centre. There is only one other existing credit union in Rotherham and this is Rothersave. It is however recognised that an existing provider could set up in Rotherham, although the length of the contract may make this unattractive.

4. Given the funding will end in 2015, the contract can only be for one year making it even less likely to attract any potential new providers especially given the uncertainty about the future provision and funding.
5. Given any tendering exercise is unlikely to attract any other suitable or experienced provider, it is felt that the time it would take and the resources required to facilitate the tendering process would not benefit the crisis loan provision.
6. Although there is a risk to not tendering any existing service and by not doing so could result in a challenge from a provider that feels they should have been given the opportunity to tender for the service, the risk is felt to be low given the very low number of credit unions that exist, the requirement for a local Rotherham base, plus the uncertainty around the funding beyond 2015.

7.4 Contract Variation Requirements 2014/15

The original contract with LASER was to provide 72 loans per week. The actual number of loans provided and the average loan amount has been monitored by the Fund for Change Manager. It is clear that the demand for crisis loans was not as originally anticipated or alternative crisis funding is being sought by individuals.

It is proposed that the crisis loan provision for 2014/15 continues but with some variation to the existing contract. This will include a reduction in the target number of loans to be provided based on the actual number provided during 2013/14. Value will be added to the contract by LASER taking on the responsibility for providing financial advice to each individual approved for a crisis loan to hopefully prevent the crisis situation reoccurring. This will not be debt advice as this provision already exists but more related to helping the individual manage their money enabling them to pay their bills and potentially save money as well.

It is also proposed at this stage that RMBC Customer Service Centre will continue to check the individual's eligibility for a crisis loan and that they can repay the loan before referring on to LASER to process the request.

Allocating an average cost per individual loan is to be determined to make the administrative process more efficient. Such costs relate to the administration of the loan and collection of the repayments and include the cost of a letter to individuals about non-payment, cost of a referral letter to DWP to enable repayments to be made through individual's benefits, costs of a referral letter to debt collectors (if necessary) and the £2 membership fee for the individual to become a member of the credit union. RMBC also pays the interest that LASER would have charged for a loan, to enable the crisis loan to the individual to be interest free with no additional costs to be incurred by them which would not help the situation in terms of the original need for a crisis loan.

7.5 Contractual Arrangements and Review

In line with usual commissioning practice, there will be a contract between RMBC and LASER Credit Union for 12 months which will include a contract variation in line with the above. The usual contract review meetings will be held to monitor performance and determine the success of the service. It is anticipated that the contract will be reviewed after 6 months to analyse the take up of crisis loans and whether the financial advice provided is having an affect. If necessary a further contract variation to ensure the service continues to respond to the needs of vulnerable people may be required

and hopefully this will coincide with some notification from central government about any replacement of the social fund and what the criteria of such funding may be.

8. Finance

Based on the current average of 132 loans per month being provided with an average value of £126 the projected spend on the loans for the full year would be £199,584 from 1,584 loans.

A cost per loan is to be determined and this is estimated to be approximately £62.00 per loan. This cost per loan includes staffing costs (including 15 minutes financial advice), overheads and administrative costs such as membership fees, arrears letters to individuals, referral letter to DWP. The cost per loan does not include interest to be paid or any referrals to debt collection agency (if required). Therefore the cost for the year is estimated to be £98,208 to provide 1,584 loans. Of course these costs could vary depending on the number of loans requested and approved over the year

9. Risks and Uncertainties

Not undertaking a competitive tendering process could result in some challenge from a service provider who currently provides similar services about the decision to award the contract. This risk is felt to be low.

10. Policy and Performance Agenda Implications

The provision of crisis loans relates to the community strategy priority around supporting those who are vulnerable in our community.

11. Background Papers and Consultation

None.

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