

**POLICY REVIEW 2011/12: DRAFT SCOPING REPORT****REPORT OF THE CHIEF EXECUTIVE****1. Purpose of Report**

- 1.1 The purpose of this report is to put forward proposals and seek the views of Members on the potential for a mini policy review into the effects of illegal loan sharks and moneylenders on local communities.

**2. Background**

- 2.1 At a meeting of the Cabinet held on 22<sup>nd</sup> June 2011 a report was submitted requesting approval for Sunderland City Council to authorise Birmingham City Council to investigate and institute legal proceedings under Part III of the Consumer Credit Act 1974 against illegal moneylenders. Following discussions within the Cabinet meeting it was suggested that this would be an interesting topic for the scrutiny function to investigate, with a particular focus on the effect of loan sharks and illegal moneylenders on local communities.
- 2.2 It is with this suggestion in mind that a further scoping paper has been prepared and submitted to the Management Scrutiny Committee, which outlines to Members the potential way such a review could be conducted. It is, of course, ultimately the decision of this committee if it wishes to conduct such an investigation.
- 2.3 There are four types of lender available to the general public, and these are as follows:
- Legal loan operators who openly offer short term loans for APRs of over 2500%(also known as high cost consumer credit);
  - Banks and similar institutions that require security and huge amounts of assurity that the lender is a safe risk;
  - Credit Unions, and;
  - Illegal loan businesses who charge massively high interest rates, use threatening behaviour and a never ending pay back plan.
- 2.4 Statistics related to the victims of loan sharks builds a profile of the types of people who often can fall victim to such operations:
- 65% are female;

- 75% are on benefits;
- 82% are without home contents insurance;
- 75% live in rented accommodation;
- 12% are home owners (an emerging trend);
- 56% live in social housing and 19% in private rented;
- 63% are unemployed, and;
- 18% are self employed.

2.5 It should be noted that 70% of the people that use loan sharks need to purchase something essential for everyday life with the other 30% having some kind of addiction including gambling, alcohol or drug dependency. Also in looking at statistics it is interesting at this point to note some of the underlying reasons why people have used loan sharks and how they have come into contact with them:

- 78% found the loan shark through a friend;
- 46% had borrowed before;
- 44% knew the loan shark before borrowing;
- 46% tried to borrow elsewhere first;
- 66% had other debts (average £7k+);
- 28% had had other benefits check, and;
- 46% considered the loan shark a friend.

2.6 As highlighted the majority of people using moneylenders are in receipt of income support or benefits and are introduced through word of mouth. In investigations conducted by Birmingham City Council it has been established that moneylenders often resort to intimidation and violence in order to secure payment. Other common traits include: adding indiscriminate charges, targeting single mothers and seeking payment through sexual favours.

2.7 Illegal moneylenders often use victims of money lending to assist them with maintaining their criminal lifestyle and anonymity. This can be through registering vehicles and establishing accounts at a clients address.

2.8 Anecdotal evidence also suggests that illegal moneylenders have an impact on the wider community in which they operate, with victims resorting to petty criminal activities in order to meet payments.

2.09 The key driver for the review will be the effect that moneylenders and illegal loan sharks have on local people and the wider communities in which they live, as discussed at the Cabinet meeting held on 22<sup>nd</sup> June 2011.

### **3. The Scrutiny Review Process**

3.1 Scrutiny reviews will carry out a number of stages in undertaking and completing a review. The stages broadly are:

<b>Stage 1 Scope</b>	The initial stage of the review identifies the background, issues, potential outcomes and timetable for the review.
<b>Stage 2 Investigate</b>	The Committee gathers evidence using a variety of tools and techniques and arranges visits where appropriate.
<b>Stage 3 Analyse</b>	The key trends and issues are highlighted from the evidence gathered by the Committee.
<b>Stage 4 Clarify</b>	The Committee discusses and identifies the principal messages of the review from the work undertaken.
<b>Stage 5 Recommend</b>	The Committee formulates and agrees realistic recommendations.
<b>Stage 6 Report</b>	Draft and final reports are prepared based on the evidence, findings and recommendations.
<b>Stage 7 Monitor</b>	The Committee monitors recommendations on a regularly agreed basis.

#### **4. Overall Aim of the Scrutiny Policy Review**

- 4.1 To look at the various means by which people borrow money and the effects this can have on their lives and the wider communities in which they live.

#### **5. Proposed Terms of Reference for the Scrutiny Policy Review**

- 5.1 The following Terms of Reference for the policy review are proposed:-
- (a) To identify and understand the types of money lenders available to people living within Sunderland;
  - (b) To investigate and identify the overall levels of debt, the levels of interest charged and some of the selling techniques employed by money lenders;
  - (c) To explore the issues that members of the public face in relation to debt and the impact that money lending can have on individuals and communities as a whole, and;
  - (d) To look at examples of good practice from across the region and country in relation to the policy review.

## **6. Potential Areas of Enquiry and Sources of Evidence**

6.1 The Scrutiny Committee can invite a variety of people, key stakeholders and interested parties to provide written or oral evidence in order that a balanced and focused range of recommendations can be formulated. A list of potential witnesses, though not exhaustive, is included for Members information:

- (a) Relevant Cabinet Portfolio Holders;
- (b) Trading Standards and Licensing Manager;
- (c) Head of Housing;
- (d) Gentoo Housing Group;
- (e) Citizens Advice Bureau;
- (f) Wearside First Credit Union;
- (g) Local Debt Advisors;
- (h) Police;
- (i) Welfare Rights;
- (j) Members of the Public
- (k) Community and Voluntary Groups, and;
- (l) Local Authorities and/or organisations of good practice.

6.2 Community engagement plays a crucial role in the scrutiny process. Consideration will be given to how involvement can be structured in a way that the Committee encourages views of the public and wider community.

6.3 In addition, diversity issues have been considered in the background research for this enquiry under the Equality Standards for Local Government. As such the views of local diversity groups will be sought throughout the inquiry where felt appropriate and time allows.

## **7. Funding from the Dedicated Overview and Scrutiny Budget**

7.1 Consideration has been given, through the background research for this scoping report of the need to use funding from the committee's dedicated Overview and Scrutiny budget to aid Members in their enquiry.

7.2 At this stage it is suggested that funding may be necessary to support the following activities:

- (a) Key witnesses;
- (b) Engagement with voluntary and statutory organisations;
- (c) General publicity;
- (d) Visits (as necessary) to deliver effective scrutiny; and
- (e) Task and Finish activities.

## **8. Proposed Timetable of the Scrutiny Investigation**

8.1 The following scheduled meetings will include evidence gathering for the study:

Setting the Scene - September 2011

Evidence Gathering – September 2011 to January 2012

Consideration of Draft Final Report - February 2012

Consideration of Final Report by the Scrutiny Committee – March 2012

Consideration of Final Report by the Cabinet/Council- June 2012

(tentative date)

8.2 Additional working group meetings may be required to complete the evidence gathering.

## **9. Recommendations**

9.1 Members are recommended to discuss and agree the scope of the Management Scrutiny Committee's policy review for 2011/12 as outlined in the report.

## **Background Papers**

Cabinet Papers – 22 June 2011 (Sunderland City Council)

The Brian Shields Trust – Website

Office of Fair Trading - Website

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