

Community Wealth Building  
Directorate for Economic Development  
Third Floor  
5 Atlantic Quay  
150 Broomielaw  
Glasgow  
G2 8LU

10<sup>th</sup> May 2023

## **Building Community Wealth in Scotland Consultation - May 2023 - ABCUL Response**

To Whom it May Concern,

We welcome the opportunity to respond to this consultation. ABCUL is the primary trade association representing credit unions in England, Scotland and Wales with around two thirds of credit unions in mainland Great Britain affiliated to the Association.

Credit unions are co-operative societies who provide financial services – primarily savings and loans facilities – to their member-owners. They are registered as Co-operative Societies under the Co-operatives and Community Benefit Societies Act 2014 and the Credit Unions Act 1979. As deposit-takers they are dual-regulated by the =

Credit unions have since their inception in Britain in 1964 been closely associated with anti-poverty and financial inclusion. They tend to provide savings and loans facilities to those with limited or no access to financial services from mainstream providers, generally due to their low income and / or lack of a developed credit profile. They have been a central element of numerous government and philanthropic initiatives to extend financial inclusion and address the lack of adequate provision of affordable credit and secure savings facilities for large sections of the population. They are capped in the interest that they can charge at 42.6% APR under the Credit Union Act 1979 and provide credit in competition with high-cost lenders.

They are numerous, with over 250 credit unions active in Great Britain today with more than 1.4 million members and £2.3 billion in assets under management. They range from mid-sized businesses of up to 50 staff to small voluntary organisations.

## **Response to Consultation**

We respond to this consultation in strong support of Scottish Government's Community Wealth Building agenda and consultation. It is clear that the future

Community Wealth Building program is intended to recognise and further the co-operative and credit unions model. While the consultation does not generally set out specific policy proposals, it does propose a new statutory duty which would advance Community Wealth Building in Scotland, making it standard in economic policy and practice.

**Question 1a: We are proposing a duty to advance Community Wealth Building, which form do you think this duty should take:**

- **Option A** - a duty requiring Scottish Ministers and prescribed public sector bodies to embed the CWB model of economic development into their corporate plans and wider strategies
- **Option B** - a duty requiring those public sector bodies statutorily obliged to be involved in community planning to produce a collective CWB place-based strategy and action plan which contains specific actions across the five CWB pillars to advance the CWB model of economic development in their local authority area. This requirement could be taken forward at a regional level
- **Option C** - A combination of options A and B
- **Other**
- **No duty**

The credit union sector strongly supports the introduction of a statutory community wealth building duty. We believe the combined option C is the best option as we believe that a coherent and far-reaching statutory commitment to CWB is necessary for this agenda to be delivered. However, clear, and measurable targets must be implemented to ensure meaningful actions are applied as well as allowing a method evaluation to ensure that progress is made. We believe it is essential that the community wealth building duty is extended to apply regionally and to local authorities, on the basis that local authorities and regional bodies are key organisations for the public sector work critical to developing local economies. There is a need to focus on matching the local and regional approaches to local economic development to the Scottish Government's national community wealth building strategy, to ensure local and national work on community wealth building is coherent and complementary.

**Question 1b) One way Scottish Government could support the implementation of the proposed Community Wealth Building duty is to provide statutory or non-statutory guidance. Would this be helpful to partners in meeting the proposed duty?**

- Yes
- No
- Don't Know

We believe guidance from the Scottish Government for partner organisations and stakeholders on community wealth building is necessary for there to be a clear, sufficient, and consistent understanding of community wealth building to implement the Scottish Government's economic development strategy effectively. In addition to any statutory guidance, it would be beneficial for the Government to provide case studies so there is clear direction for the way that the five pillars have been implemented in the UK and internationally. Highlighting the existing work of credit

unions, like 1<sup>st</sup> Alliance (Ayrshire) Community Bank, who are committed to the development of community wealth building in their area through the many initiatives they have implemented including working with local housing associations to help address fuel poverty, supporting members of the community who are financially struggling through grant funding as part of North Ayrshire Councils Recovery Plan. 1<sup>st</sup> Alliance are also in partnership with Post Offices across the UK where members can access their money via text message, they also provide debit cards to ensure members can access their savings in the absence of other financial service providers in the area.

As well as explaining the higher-level principles of the community wealth building development, any materials produced should have clear practical guidance and links to further supporting materials to empower organisations to embed community wealth building. We believe the guidance should clearly identify co-operatives and credit unions as distinct legal entities that have a unique legal structure and social purpose. We believe that statutory guidance would be beneficial provided it accompanies a robust statutory community wealth building duty.

**Question 2a: Are there other non-legislative measures that you believe are required to accelerate the implementation of the Community Wealth Building approach in Scotland?**

- Yes
- No
- Don't Know

We believe that there are a number of non-legislative measures that are required to accelerate the implementation of the Community Wealth Building approach in Scotland. We would like to see a plan to have long-term collaboration with the sector to discuss emerging priorities. It is also essential that sufficient funding is provided to support the credit union sector's development, such as supporting merger activity and a designated fund to support the development of co-operatives including credit unions. We also believe that support for marketing and promotion of the co-operative and credit union sectors, to raise public awareness of co-operatives and the credit unions unique business model.

**Question 6: Are there ways in which the law could be changed to advance the inclusive ownership pillar of Community Wealth Building?**

- Yes
- No
- Don't Know

We believe that credit unions should be recognized as key vehicles for socially responsible and community based investment as cooperatives, with unique and socially valuable statutory objectives. Credit unions should be recognised under the inclusive ownership pillar as well as the finance pillar. As co-operatives, credit unions

are owned and controlled by their members. They are not only democratic organisations but are also community based, making them key to delivering the community wealth building agenda.

We strongly encourage Scottish Government to ensure that clear social value objectives are attached to determining public spending and initiatives, particularly based on democratic and inclusive organisations including credit unions and cooperatives.

**Question 7: Are there ways in which the law could be changed to advance the finance pillar of clear targets and measures Community Wealth Building?**

- Yes
- No

As the consultation paper acknowledges, legislation governing the credit union sector is primarily a reserved matter. Many steps for the Scottish Government to support the credit union sector in CWB will be non-legislative, but a robust statutory Community Wealth Building Duty will add the incentives and drive to support non-legislative action to support the credit union sector. In the United States of America, the Community Reinvestment Act requires federal banking agencies to assess the institution's record of meeting the credit needs of its entire community in which they do business including low- and moderate-income communities. Incentives to replicate the US model where credit unions are supported by local banks who provide capital to allow customers not serviced by themselves to be serviced by a credit union. Having similar legislation across the UK would help to reduce financial exclusion, illegal money lending, and increase individuals financial wellbeing and access to financial advice.

Although credit unions are able to offer business lending, they do have some statutory and regulatory restrictions associated with this activity. Credit unions must be supported to develop their business lending capability and offering, such as a shared service like the ability to set up a credit union service organisation (CUSO) to ensure sufficient expertise with underwriting business lending, and to ensure sufficient scale is gathered to make the implementation and continual development cost efficient. Having a funded and shared resource would allow credit unions to help support local business lending keeping money local and any profits staying within the community.

The sector would also require some additional funding to help scale and support this offering. This may not be directly from Government but by opening up the capital markets to allow for social investors to also fund the sectors growth. Building Societies have legislation covering Core Capital Deferred Shares (CCDS), a form of Common Equity capital consistent with the mutual ethos. By implementing legislative change to allow credit unions to offer a product akin to building society Core Capital Deferred Shares, CCDS, this would enable the sector to find additional investment and support its growth and development.

Another area we seek legislative change in is the tax status for credit union investors to allow for tax efficient investment akin to the Community Investment Tax Relief (CITR), or the Enterprise Investment Relief (EIS), that Community Development Finance Institutions (CDFIs) investors can benefit from. This would encourage investment in the sector and attract more private investment into the sector. We would urge Government to make the legislative changes required and replicate the same tax relief opportunities for the credit union sector. Another legislative change

To develop the finance pillar further Scottish Government could support the requirement for payroll partnerships, incentivised or fully mandated for credit unions. Providing funds to support credit unions and businesses to provide payroll deductions would encourage saving habits and provide access to ethical finance, while keeping the community at the center of it.

We would strongly encourage Scottish Government to engage with ABCUL and the credit union sector around the potential to carry forward these changes in the near future.

Please get in touch at [policy@abcul.org](mailto:policy@abcul.org) should you wish to discuss our response.

Yours faithfully,

Natalie McQuade

Head of Advocacy and Projects, ABCUL