 <b>Executive 5 January 2017</b>		<b>Agenda Item No.</b>  <h1 style="text-align: center;">5</h1>
<b>Title</b>	The Rental Exchange Project	
<b>For further information about this report please contact</b>	John Gallagher Income Recovery and Financial Inclusion Strategy Manager 01926456411 john.gallagher@warwickdc.gov.uk	
<b>Wards of the District directly affected</b>	All wards	
<b>Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?</b>	No	
<b>Date and meeting when issue was last considered and relevant minute number</b>	Executive March 16 <sup>th</sup> 2016	
<b>Background Papers</b>	Attached	

<b>Contrary to the policy framework:</b>	No
<b>Contrary to the budgetary framework:</b>	No
<b>Key Decision?</b>	No
<b>Included within the Forward Plan? (If yes include reference number)</b>	Yes # 747
<b>Equality and Sustainability Impact Assessment Undertaken</b>	Yes
A detailed impact assessment was undertaken by Big Issue Invest, Experian and a number of housing associations involved in the original pilot scheme – the reports are available on request from the Income Recovery and Financial Inclusion Strategy Manager	

<b>Officer/Councillor Approval</b>		
<b>Officer Approval</b>	<b>Date</b>	<b>Name</b>
Chief Executive/Deputy Chief Executive	24/11/2016	Bill Hunt
Head of Service	6/12/2016	Bill Hunt
CMT	6/12/2016	Bill Hunt
Section 151 Officer	6/12/2016	Mike Snow
Monitoring Officer	1/12/2016	Andy Jones
Finance	1/12/2016	Andrew Rollins
Portfolio Holder(s)	24/11/2016	Peter Phillips
<b>Consultation &amp; Community Engagement</b>		
Local stakeholders including CAB, Cava and representatives of local Community Centres were consulted at the Affordable Credit Conference that took place on 27 <sup>th</sup> November 2015.		
<b>Final Decision?</b>	Yes	

## 1. **SUMMARY**

- 1.1 In March 2016, the Executive approved implementation of stage one of the Rental Exchange project. The results of stage one have been very positive, and therefore we want to move ahead to full implementation of the scheme, designed to help people secure lower priced credit and improve their digital profile.

## 2. **RECOMMENDATIONS**

- 2.1 That the Executive notes the outcomes of stage 1 of the Rental Exchange project.
- 2.2 That Executive approves the Council joining the Rental Exchange project and progresses to full implementation of the scheme.

## 3. **REASONS FOR THE RECOMMENDATION**

- 3.1 Following Executive approval for stage one. We passed information to Experian relating to our tenants. Experian have then assessed the data sent and advised us of the results.
- 3.2 The Warwick District Stage One results are very promising (see appendix One). Initial results indicate that:
- *71% of WDC tenants will improve their credit score*
  - *26% of WDC tenants will not be affected as they are in receipt of full housing benefit*
  - *3% of WDC tenants would have their credit score reduced*
  - *95% of WDC tenants will establish a satisfactory digital footprint*
- 3.3 These results indicate that a significant proportion of our tenants would be able to access cheaper forms of credit as a result of them paying their rent.
- 3.4 Following the approval to join the Rental Exchange scheme tenants will be notified formally of our intention to join the scheme. Tenants will be given clear information about the sharing of their information, how we will comply with the Data Protection Act and how they can then opt out of the scheme should they wish. Tenants who do not want their data shared will be able to opt out.

## 4. **POLICY FRAMEWORK**

### 4.1 **Fit for the Future**

- 4.1.2 The Rental Exchange project will have a positive effect on the Fit for the Future programme. By supporting tenants to improve their credit rating and potentially access affordable credit we are aiming to mitigate the risk of rent arrears and welfare reforms.

### 4.2 **Sustainable Communities Strategy**

- 4.2.1 Housing theme – By joining the scheme the Council's tenants should be able to improve their credit rating and access goods and services in their community at

a cheaper rate. This should have a positive effect on income collection as tenants should be able to manage their finances better. The recommendation in this report is consistent with and supports the delivery of the Council's adopted Housing Strategy 2014-17 action point 1.3: "working with our partners across all sectors to support people in financial difficulties".

- 4.2.2 Prosperity theme– Currently there are few opportunities to access affordable credit in Warwick District for people with poor credit ratings. As a result, tenants are more likely to access credit from loan sharks, door step lending and pay day loans. As credit ratings improve, tenants will be able to access loans and goods with lower rates of interest. That will increase the prosperity of the local communities as more income will be available for local goods and services
- 4.2.3 Health and Well Being theme – The link between health and well-being and income levels are well known. The savings a tenant can potentially be able to make over time should mean that they are better able to cope with fuel poverty, improve their diet and be better able to access sport facilities
- 4.2.4 Community Safety and Sustainability themes – Evidence from other organisations involved in the scheme such as Riverside, Affinity Sutton and Genesis Housing Associations, indicate that as circumstances for tenants improve through cheaper loans and improved credit ratings they are more likely to engage positively with their landlord in local communities

## 5. **BUDGETARY FRAMEWORK**

- 5.1 There is no cost to the Council in joining the Rental Exchange scheme apart from the letters sent to each of our 5,400 tenants. These costs will be met from existing budgets
- 5.2 There will be an opportunity cost in forming the project team to develop and implement the project plan

## 6. **RISKS**

- 6.1 The main risk associated with this project is that although the project will improve credit scores for the majority of our tenants. This only helps if they can access affordable credit.
- 6.2 As indicated 71% of our tenants would improve their score but a significant number of these tenants would still only be able to access loans at rates in excess of 500% APR as normal high street lending streams consider this group a risk.
- 6.3 This is the current position in Coventry and Warwickshire and has been for a number of years. We will consider the potential of working with other providers of affordable credit, such as City Save Credit Union to explore widening their geographical area of business to include Warwickshire. This would give our tenants access to more affordable rates of credit between 19.5% and 26.8% APR.

## 7. **ALTERNATIVE OPTION(S) CONSIDERED**

- 7.1 The Rental Exchange is a national initiative developed by Big Issue Invest and Experian. There is currently no alternative to this scheme which can provide the same benefits to the Council's tenants.

- 7.2 If the Council chose not to explore joining the Rental Exchange, it may miss out on an opportunity to help reduce the cost of credit and increase the payment options for services for its tenants.

## 8. **BACKGROUND**

- 8.1 In 2010 Big Issue Invest introduced the concept of using rental payment information to help address the financial exclusion challenges that Social Housing tenants face. Tenants can find it difficult to access mainstream financial services such as affordable loans, bank accounts and credit cards. Often this is because there is insufficient information held on their credit file.
- 8.2 Many organisations rely upon credit scoring to decide whether to give customers access to financial products such as a mobile phone contract, a bank account or a loan at an affordable interest rate.
- 8.3 Research indicates that many social housing tenants are excluded from affordable credit and services due to the lack of a credit history and this means they are more likely to be refused or pay more, putting extra pressure upon already challenging finances.
- 8.4 For someone to be eligible for mainstream credit the general authentication requirement is two digital proofs of identity - for example a gas bill and a rent record. Without rent data, only 39% of tenants hold two or more electronic proofs. Once rent data is included, this increases to 84%. Improving electronic identification rates will give tenants easier access to full banking services as well as a range of non-financial public and private services such as fuel bills and car insurance.
- 8.5 The majority of the Council's tenants pay their rent on time and so will be able to enhance their credit score.
- 8.6 Nationally, there are now 1.1 million social housing tenants currently taking part in the Rental Exchange. In addition to this a further 225 housing providers are in the process of joining the scheme.
- 8.7 In March 2016, Executive agreed for Stage one of the Rental Exchange Project to go ahead. At this stage Experian used our tenants information to gauge whether or not our sharing our tenants rent payment records would have a positive effect on their credit ratings. Stage one was completed in August 2016.
- 8.8 Big Issue Invest, the social investment arm of The Big Issue Group and the credit rating firm Experian, have developed The Rental Exchange in response to the financial, digital and social exclusion challenges that tenants face compared to homeowners in Britain. By observing rental payment data in the same way that mortgage payment data is viewed by credit rating agencies, the Rental Exchange allows tenants with little or no credit history to build up a good credit file.
- 8.9 Warwick District has a strong financial infrastructure. However, this is not the case for a significant minority of residents. Data from City Save Credit Union indicates that the average credit rating for our tenants who have applied for a loan or a savings account is relatively low. There are very few ways for our tenants with a poor credit history to improve their score in order to access cheaper goods and access to credit.

- 8.10 In the same way that mortgage payment information counts towards a credit profile, rental payment history can, as a result of the Rental Exchange, be used as proof of a tenant's financial standing and reliability. This will help tenants to create a proven and robust online identity, a good credit history and so make it easier to open a bank account, receive better gas and electricity rates or obtain cheaper credit. It will help reduce the risk of people turning to loan sharks and payday lenders for credit.
- 8.11 The Rental Exchange also helps tenants to build an online proof of identity which is important when applying for a utility supplier, a mobile phone provider or online shopping.
- 8.12 There are three stages to joining the Rental Exchange, set out below:
- 8.13 Stage One: This stage, conducted in a closed environment, is an initial sharing of data by the Council with Experian. Experian uses this data to assess the extent of the benefits that the Council's tenants may gain from the Council joining the Rental Exchange. There is no obligation on the Council at this stage to join the Rental Exchange.
- 8.14 Stage Two: If the research shows that there would be benefits to the Council's tenants, the Council would agree to move to Stage Two in which tenants are informed about the project, including the pros and cons of the Council becoming a full member of the Rental Exchange.
- 8.15 Stage Three: Following Stage Two the Council becomes a full member of the Rental Exchange, sharing data on a monthly basis. All data is shared in a secure way and in full compliance with data protection legislation. (see appendix two)



## Data Analysis - Credit Scores

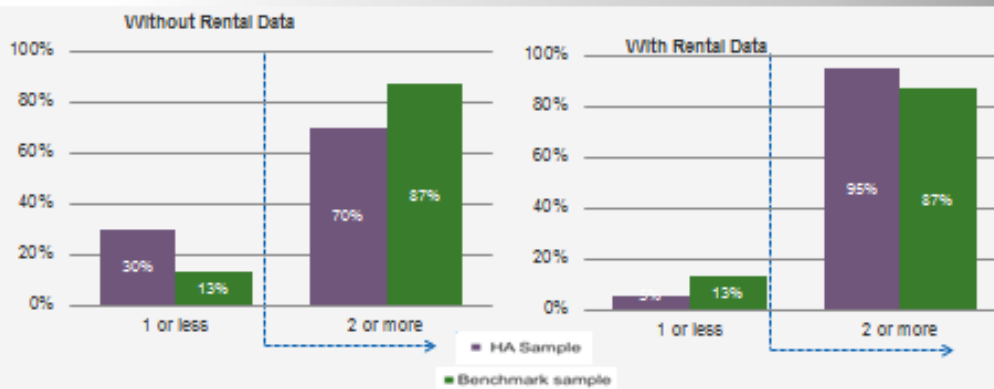
- **71% (3,479)** of Warwick District Council Housing tenants have no significant arrears on their rent and their credit scores would **improve** as a result of incorporating rental data.
- **11% (400)** of these tenants would gain access to previously inaccessible credit and services.
- **3% (130)** tenants have serious arrears on their rent so would have their credit score **reduced**.
- **13% (17)** of those tenants would move from the *accept to reject* category (around **82%** of those tenants with rent arrears also have a CAIS default which already impairs their credit score).



26% (1,298) of tenants are on Full Housing Benefit so would see no effect to their credit score.

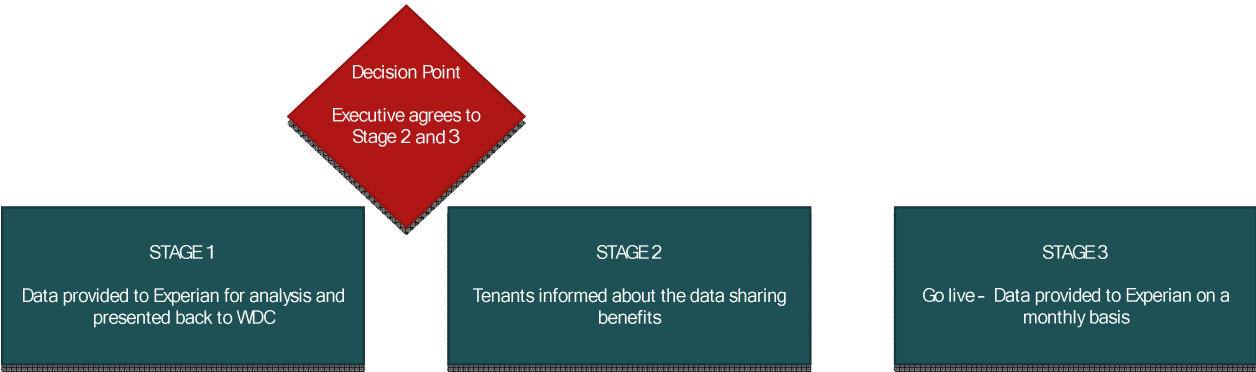


## Data Analysis - Identification



- The general authentication requirements is **two online proofs of identity**. Typically in manual processing two proofs e.g. gas bill and a rent record would be sufficient as a means of authenticating identity.
- Number of tenants that hold two or more electronic proofs increases from **70% (3,431)** to **95% (4,665)**.
- Improving electronic identification rates will give tenants easier access to full banking services as well as a range of non-financial public and private services.

Appendix Two



Graphical depiction of the rental exchange stages