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## Report of the Assistant Chief Executive (Corporate Governance)

### Executive Board

Date: 16 May 2007

Subject: Illegal Money Lending Project

#### Electoral Wards Affected:

Ward Members consulted  
(referred to in report)

#### Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

Eligible for Call In

Not Eligible for Call In

(Details contained in the report)

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## 1. PURPOSE OF REPORT

- 1.1 To note that the Assistant Chief Executive (Corporate Governance) has authorised Birmingham City Council and officers of the Illegal Money Lending Team in partnership with West Yorkshire Trading Standards Service, to investigate and institute proceedings against illegal money lenders operating within the Leeds District

## 2. BACKGROUND INFORMATION

### 2.1 General

- 2.1.1 The primary legislation governing the consumer credit industry is the Consumer Credit Act 1974 and this is enforced, in each Local Authority area, by the Trading Standards Service. The Act is based upon a licensing system and all consumer credit and consumer hire businesses operating in the UK (with certain exemptions) must possess an appropriate licence issued by the Office of Fair Trading (OFT). The OFT must be satisfied that an applicant for a Consumer Credit Licence is a fit and proper person before issuing that person with a licence to trade.

- 2.1.2 To operate a consumer credit business without being licensed is a criminal offence and carries a maximum penalty of £5,000 and/or up to two years imprisonment. Further, the OFT can revoke licenses where it can be established that the licensee has acted inappropriately. The OFT can issue warnings and add conditions to the licence where necessary.
- 2.1.3 Illegal money lending covers a range of activities, from persons that are actually licensed but are acting unlawfully (for example by canvassing off trade premises) to the extreme of a person offering cash loans without being licensed at all (Loan Sharks).
- 2.1.4 The Birmingham Illegal Money Lending Team was established as a pilot project, one of only two in Great Britain; the other pilot area being Glasgow. The remit of the team is to investigate illegal money lending activity and establish if a problem exists and, if so, bring to justice those persons carrying on this activity.
- 2.1.5 The pilot scheme in England is hosted by Birmingham Trading Standards and covers a geographical area including the West Midlands, Warwickshire, Shropshire, Herefordshire, Worcestershire, Stoke, Staffordshire and Telford. The team initially consisted of seven investigators with a broad range of backgrounds and investigative skills and a team manager.
- 2.1.6 Research, funded by the Department of Trade and Industry (DTI) and using information gathered by the Birmingham pilot project, has been published which identifies the extent of this type of activity as well as the reasons that people use illegal money lenders. In December 2006 the Treasury Minister Ed Balls visited the Birmingham based project and announced an extension to the funding for a further year, up to March 2008. The funding is to be provided from the Financial Inclusion Fund administered by the Treasury and managed by the DTI. This continuation clearly identifies the Government's support for the work undertaken by the Birmingham based team and a commitment to what is considered a successful project.
- 2.1.7 In December 2006, a further announcement was made by the Treasury and DTI that the Birmingham based project would extend its service provision to three cities identified as priority areas by the research carried out in conjunction with the project. These cities are Leeds, Liverpool and Sheffield.
- 2.1.8 The objectives of the project are:
- (a) to ensure cases of illegal money lending are brought to Court following the work of the team during the year 2007/2008;
  - (b) to obtain a greater understanding of the level of illegal money lending, particularly in the Leeds area;
  - (c) to promote ways of replacing the removed lenders with more support for their victims, and;
  - (d) to consider 'Best Practice' when attempting to enforce the law against illegal money lending in the future.

## **2.2 Key statistics for the project up to 1 February 2007**

2.2.1 Population covered - 5,267,337, incorporating 14 local authorities  
Illegal Debt Written off - over £2million  
Victims helped - over 1,000  
Cash seized to date - £36,170  
Proceeds of Crime Proceedings ongoing for over £1 million  
12 guns taken off the street  
Many of the offenders were also falsely claiming benefits.  
Counterfeit goods to the value of over £100,000 recovered

2.2.2 In addition to exceeding the expectations of the Government, the project has also achieved significant added value, including expert support to other Trading Standards authorities in tackling illegal money lenders in their area. Developing partnership working with the Police, the Department of Work and Pensions, H M Revenue and Customs as well as other key partners has facilitated a coordinated approach to tackling crime.

## **2.3 Performance against the Objectives of the Pilot Project**

2.3.1 *Objective 1 - "To obtain a clear understanding of the scale and impact of illegal money lending as well as learning lessons on the best way to enforce":*

The evidence so far indicates that illegal moneylenders are widespread and prevalent. They operate in areas that have a high proportion of rented accommodation and target the most vulnerable members of society. High rise flats are common premises targeted by loan sharks as legitimate lenders do not lend to people residing in this type of accommodation in England due to the health and safety risks for their collectors.

2.3.2 Evidence suggests illegal moneylenders vary from those who lend £10 over a few days and demand £12 on repayment, to those who provide substantial loans to those looking to set up businesses. Interest rates range from 100% up to 117,000% APR in some instances.

2.3.3 Information gathered so far suggests that illegal money lending is being operated across all sectors of the community. The majority of people using moneylenders are in receipt of income support or benefits and are introduced through word of mouth. However evidence also suggests that money lenders operate within the wider community and the pilot has identified illegal moneylending within the business community. In many of the investigations it has been established that the moneylenders resort to intimidation and violence in order to secure payment. Other common traits include: adding indiscriminate charges, targeting single mothers and introducing payment through sexual favours.

2.3.4 Moneylenders often use victims of money lending to assist them with maintaining their criminal lifestyle and anonymity, for example illegal money lenders' vehicles are often registered at a clients' address.

- 2.3.5 There is also anecdotal evidence which suggests that illegal moneylenders have an impact on the wider community in which they operate, with victims resorting to petty crime to enable them to meet payments. Reducing the activities of illegal moneylenders or removing them altogether may therefore help to reduce levels of other criminal activity within a community.
- 2.3.6 With regard to enforcement activity, the investigation of illegal money lending has proven to be very resource intensive. Targets need to be observed and monitored to determine their activity, to identify them and if possible establish their address. A significant proportion of targets are also what are termed “life style criminals”, which means that evidence of other illegal activity can surface during the course of an investigation. This may not only involve other agencies but can also extend the life of an investigation, thereby adding to the pressure on resources.
- 2.3.7 *Objective 2 - “To create a climate where victims can come forward – confident that prosecutions will be undertaken, and convictions obtained, without fear of reprisals”:*
- Effective branding and publicity of the pilot project has meant extensive promotion of the aims of the project and work of the team, within both the local and wider community. Evidence suggests that this has been achieved because it can be evidenced that victims are willing to contact the hotlines, and to provide further evidence to help achieve prosecutions.
- 2.3.8 The Birmingham Team has continued to use injunctions, backed by the power of arrest under the Anti-Social Behaviour Act 2003, to remove lenders from their area of operation. Injunctions are reinforced with an agreement from the local police to flag the matter on their system and respond immediately if they receive a call from one of the victims.
- 2.3.9 *Objective 3 – “To change the perception amongst those lending that illegal money lending is rarely prosecuted”:*
- A proactive media campaign is ongoing. Engaging television, radio and newspapers locally, regionally and nationally is helping to promote the work of the team and raising public awareness.
- 2.3.10 *Objective 4 – “To develop ways of replacing the removed lenders with more support for their victims”:*
- The Birmingham Illegal Money Lending Team helps victims of illegal moneylenders with practical help and support through and in conjunction with the services of local Debt Advice Teams and the National Debtline. It has been noted that victims often need more than simple money advice and so face-to-face advice is considered the most helpful way forward and is the route normally adopted.
- 2.3.11 Links have also been established with credit unions and their associations and where practicable these agencies are also called upon to provide help and advice. The Birmingham Illegal Money Lending Team offers money management to all victims of moneylenders who contact them for advice and assistance. Partnership working in this area is recognised as being a must in this area of service provision.

## **2.4 Authorisations**

- 2.4.1 In order to expand the scheme into Leeds and appropriate neighbouring areas, using the existing Birmingham team requires proper authorisation of the officers to carry out the investigations and for all the associated legal processes and costs thereof to be delegated to Birmingham City Council.

## **3. KEY PRIORITY IMPLICATIONS**

- 3.1 **Safer and Stronger Communities** – Illegal moneylenders invariably target low-income households and the most vulnerable members of society. This can mean that their activities have disproportionate implications for the more deprived areas and action taken against them therefore supports the policy priorities associated with crime and disorder and protecting the more vulnerable members of the community.
- 3.2 **Children and Young People** – Educational initiatives with young people will run alongside the project helping to generate an understanding of effective money management and financial responsibility.

## **4. LEGAL AND RESOURCE IMPLICATIONS**

- 4.1 **Legal/Human Rights Act considerations** - By virtue of Section 161 of the Consumer Credit Act 1974, it is the duty of each 'local weights and measures authority' to enforce the provisions of the Act within their local authority boundary. However, under the provisions of Section 101 of the Local Government Act 1972 and Section 19 of the Local Government Act 2000, it is possible to delegate functions to another local authority, provided it is in the interests of the citizens of the local authority responsible for delegating the function.
- 4.2 There are no financial implications for WYTSS or Leeds city Council as a result of this proposal. WYTSS does not currently have sufficient resources to dedicate a team solely to the investigation and detection of illegal or unlicensed money lenders. The Birmingham based project team, funded by the Treasury, is able to provide additional resources and protection for the benefit of West Yorkshires citizens.

## **5. RECOMMENDATIONS**

- 5.1 That Members note that the Assistant Chief Executive (Corporate Governance) under her delegated authority has authorised Birmingham City Council and the Illegal Money Lending Team to investigate and institute proceedings against illegal money lenders operating within the district of Leeds.