

WAVERLEY BOROUGH COUNCIL

EXECUTIVE

5 JUNE 2018

Title:

BOOM CREDIT UNION

**[Portfolio Holder: Cllr Ged Hall]
[Wards Affected: All]**

Summary and purpose:

This report proposes to invest £15,000 from the emergency grants fund in the Boom Credit Union by way of purchasing deferred shares.

How this report relates to the Council's Corporate Priorities:

Community Well Being – Boom Credit Union benefits our residents by providing an alternative to Payday and other high interest loans

Equality and Diversity Implications:

Boom Credit Union does not discriminate in its operation and treats its customers fairly.

Financial Implications:

The Council's purchase of deferred shares would be treated as capital expenditure, which would need to be financed by a contribution from Waverley's reserves. If the expenditure is financed from reserves, there is no minimum revenue provision on the expenditure. The Council's balance sheet would show an investment in shares once the purchase has been made.

Deferred shareholders of an organisation are the first to absorb losses in the event of bankruptcy; deferred shares are not liquid in that they cannot be redeemed.

It would be prudent to consider this to be a grant rather than an investment given the risks and low prospect of a dividend return in the short to medium term.

Legal Implications:

The investment in deferred shares is classified as 'capital expenditure' under the Local Government Act 2003 section 16 and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 regulation 25 as amended.

The Co-operative and Community Benefit Societies Act 2014 section 32 provides the statutory authority for a corporate body to become a member in a registered Credit Union. The Council is a body corporate by virtue of the Local Government Act 1972 section 2.

The general power of competence set out in the Localism Act 2011 section 1 empowers the Council to do anything an individual may generally do apart from that, which is specifically prohibited by existing legislation.

Background

1. Credit Unions are not for profit organisations that earn money from the loans they grant to their members and direct revenue grants from supporting organisations and individuals. They are locally based, locally funded ethical institutions in which savers have a stake. They exist to provide an accessible alternative source of finance for those people in society who are unable to access mainstream banking services. They use any profits that remain to provide dividends to their members. Credit Unions are regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority PRA.
2. SurreySave opened in 2012, it is a mutual cooperative bank, owned and controlled by its members (its customers). It aims to provide an alternative to Payday and other high interest loans for those who may have been denied credit or are financially excluded by High Street banks. It offers simple services with no hidden charges or penalties, relying on larger loans to subsidise the cost of smaller, potentially loss-making, loans. Further details about SurreySave can be found at its website: www.boomcu.com.
3. SurreySave is a growing success, 19% of its lending has been within the Borough of Waverley and applications from Waverley residents form the second largest area of lending activity of the Credit Union. 14% of applications to the credit union come from residents of the Waverley Borough.
4. SurreySave has recently merged with West Sussex Credit Union under the name of Boom. The SurreySave Board recently reviewed its rate of progress and looked at the options that allow it to become a strong institution that is no longer dependent on grant funding. It concluded that at present rates of growth it would take a further 4 years to reach financial self-sufficiency. The Board concluded that it is unreasonable to expect to continue to receive the same level of grant funding from increasingly scarce public funds during this period and decided that it needs to achieve a step change in volume of business. To do this it has deployed a strategy, which is common amongst many start-up Credit Unions, it negotiated a merger with neighbouring West Sussex Credit Union to create a new larger, financially stronger Surrey and West Sussex Credit Union, which has been rebranded as Boom Credit Union. This will achieve both savings in joint operational costs and financial synergies between the two organisations. The new larger credit union should work well given the separate union's similar demographics and geographical spread.

Financial Exclusion

5. The reason for financial exclusion varies. Many households in Surrey have no savings, no insurance and no access to affordable credit. Waverley Borough, despite on average being relatively affluent, has areas of significant financial exclusion where residents, often tenants in social or private rental homes, are reliant on doorstep lending or payday loans to manage their financial affairs. Those without access to basic financial products such as bank accounts, often find it hard to obtain paid employment, often pay higher costs for services (due to an inability to access

discounts for paying by direct debit) and pay extremely high interest rates for credit. In addition, analysis shows the level of financial exclusion is growing. Household budgets of the squeezed middle are starting to face financial stress due to high mortgage repayments (due to the high cost of housing rather than interest rates) and the rising cost of living, which is limiting access to traditional bank credit for households on low to middle incomes. As a result, households are using high cost alternatives such as payday loans.

6. A significant proportion of financially excluded households live in social housing. As a responsible social landlord to nearly 5000 households, the Council has a role to play in encouraging tenants to organise their financial affairs in a more sustainable way by promoting financial inclusion. Such action should reduce the likelihood of tenants falling into arrears as they struggle with balancing the cost of repaying credit loans versus their rent and other household bills. When it was established, SurreySave received strong initial political support and grant funding from Guildford, Woking and Waverley Borough Councils, 3 Housing Associations and several charities.
7. In addition to lending, SurreySave offers support to its financially excluded customers to enable them to stabilise their financial affairs by encouraging them to access advisory services (e.g., from the CAB) and encourage customers to start saving as part of their loan repayments.
8. The credit union also offers loans and savings products to customers who have more stable financial affairs who appreciate safe and ethical savings accounts and savings products for clubs, associations and societies. We have advertised and promoted the credit union to Council staff and other public sector organisations to help develop their customer base.

Local Authority Investment in Boom

9. In the past Credit Unions have been subject to restrictions on the types of savings and loan products they are able to offer. However, these restrictions may be lifted if a credit union is able to achieve a balance sheet where their capital to assets ratio meets a target of 5%. It has ambitions to expand its business and offer a wider range of financial products and interest bearing balance sheet to 5%. As a result, in 2015 SurreySave offered its Local Authority and other founding partners an opportunity to make a deferred shares investment to achieve a long-term capital injection into its reserves to enable it to meet the 5% capital to assets ratio without affecting the resources it has to provide loans to its customers. Guildford Borough Council, along with Woking Borough Council, agreed to invest over two tranches into the credit union to help it grow and expand to be a version 2 credit union. The investment and subsequent merger with West Sussex has meant that the credit union has now achieved the required ratio of capital to assets and means that it is more financially sustainable for the future. As the business has grown, the Credit Union is now looking for further investment by way of deferred shares.
 10. It is proposed that Waverley invests £15,000 in the Boom Credit Union in 2018/2019. This will demonstrate the ongoing commitment to this important organisation and recognition of its support to Waverley's residents. This contribution will be funded from the emergency grants fund which currently stands at £29,000.
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Recommendation

It is recommended that Waverley invests £15,000 from the emergency grants fund in the Boom Credit Union by way of purchasing deferred shares.

Background Papers

There are no background papers (as defined by Section 100D(5) of the Local Government Act 1972) relating to this report.

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