

Decision Pathway Report



PURPOSE: Key decision

MEETING: Cabinet

DATE: 02 April 2019

TITLE	Investment in Bristol Credit Union		
Ward(s)	All		
Author: Neil Sinclair	Job title: Finance Business Partner		
Cabinet lead: Cllr Craig Cheney	Executive Director lead: Mike Jackson		
Proposal origin: <i>City Partner</i>			
Decision maker: Mayor Decision forum: <i>Cabinet</i>			
Purpose of Report: The report sets out the case for Bristol City Council to invest £500k into Bristol Credit Union (BCU) to allow the BCU to lever in, up to an additional £350k from charitable groups and social investors, making a total initial investment of £850k into BCU. At a later date BCU may seek further investment from charitable groups, social investors and individuals to increase the total investment to £1m. The investment into will allow BCU to: <ul style="list-style-type: none">• Build and maintain a new online platform• Employ more outreach workers in high priority disadvantaged wards• Grow the diversity of the membership through expanding the employer payroll partnership• Increase regulatory capital in order to expand the loan book• Ultimately provide more loans to people in the most deprived wards who might otherwise borrow from high cost lenders			
Evidence Base: Bristol Credit Union (BCU) is a member-owned, not-for-profit financial cooperative regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority, which currently requires the capital to assets ratio of BCU to be maintained at a minimum of 5%. BCU is a locally based, locally funded ethical institution in which savers have a stake. It earns money from the loans it grants to its members and direct revenue grants from supporting organisations and individuals. A key tenet of the Credit Union movement is provide an accessible alternative source of finance to people who are otherwise financially excluded to gain access to financial products, including bank accounts, savings accounts and affordable credit and they use any profits that remain to provide dividends to their members. Thereby it proactively works to create a more inclusive economy, specifically within financial services. BCU has grown significantly over the past 12 years since formation in 2006 from 1,200 members and £0.5m in assets to 11,000 members and £8m in assets in 2017. BCU ambition is to grow threefold over the next five years, however it is recognised that the challenge faced by credit unions is a lack of long term investment to help them address entrenched operational issues such as outdated IT Infrastructure restricting growth and lack of capacity to deliver outreach services. BCU are seeking investment into new infrastructure and in particular investment in an online platform, increase the number of outreach workers, increase regulatory capital and diversify BCU membership. The investment required to realise this ambition is estimated to be £1m, of which there is a requirement to raise an initial £0.850m Of the initial investment of £0.850m, £0.500m is being sought from Bristol City Council (BCC), the BCC investment into BCU will attract other investors including the Joseph Rowntree Foundation (JRF) who will invest £0.300m with the balance of £0.050m provided by small investors.			

The stated qualitative benefits of the investment set out by BCU are as follows:

Immediate:

- Creating jobs in the local ethical finance sector
- Enabling outreach workers who are active in disadvantaged wards
- Encouraging follow-on investment, including a local democratised investment offer (a Bristol Bond)
- Supports BCU's ability to provide homelessness rent accounts to assist Universal Credit recipients to manage better

Short Term

- An affordable form of credit which puts hundreds of thousands of pounds back into the local economy
- Loans to prevent financial problems from worsening
- Continued ability to support access to private rental sector to combat homelessness

Medium Term

- Boosts the local economy via loans to social enterprises and local business
- Reduced unemployment (Schemes such as the HGV Driver Training scheme provide the necessary credit to allow unemployed individuals to access training and materials needed to access employment opportunities.)

Long Term

- Members gain improved financial literacy and savings rates and reduced reliance on loans
- A route to financial independence for local people

In financial terms Bristol Credit Union's plan for the investment aims by September 2028 to see over 4,259 more loans outstanding to people in the most deprived wards who might otherwise borrow from high cost lenders; cumulative total of 45,000 new loans issued saving £17m in interest. The proportion of loans to those in the most deprived wards is forecast to change from 74% of overall portfolio by number, to 65% at the end of the period, partly due to assumed success in developing payroll partnerships. Payroll partnerships are forecast by BCU to represent 8% of the loans outstanding portfolio by the end of the period, compared with 6% currently. BCU also forecast an increase in higher value non payroll loans to those who can't access affordable credit from mainstream banks due to credit score/other circumstances, as part of the investment plans.

The Council recognises the long-term sustainability challenges faced by credit unions, their subsequent need for new capital, and the key business areas in need of improvement (e.g. upgraded infrastructure, digital delivery channels, increased automation and improved local marketing strategies) if they are to deliver the social benefits that could be derived .

In return for the investment of £0.5m for a period of 10 years, BCC will receive a return of 6% over the period of the investment.

To ensure that the risks associated with the investment are fully understood due diligence has been carried out on the proposition and Numbers For Good, an organisation who specialises in the social and environmental projects to connect investors with opportunities for sustainable financial and social returns, were engaged to undertake the due diligence.

As the BCU loan book grows the FCA will require BCU to increase the ratio of capital to assets on its balance sheet to 10% which will need to be retained without affecting the resources it has to provide loans to its customers. BCU must develop clear, ambitious and viable growth plans with a sustainable mix of member demographic. Alongside this, clear social impact measures are needed on the social impact that credit unions have and will be generated through this additional investment to ensure it maintains its focus on sustainable growth and reported social impact.

Investing in BCU helps BCC to achieve its corporate priority to deliver a Bristol Bond and supporting measures to improve financial inclusion within the community which in term helps to maintain a low level of council tax arrears and helps to reduce the likelihood of the Council's tenants falling into arrears with their housing rents.

Appendix A provides further details on the investment proposition, BCU performance and Due Diligence Report.

Cabinet Member / Officer Recommendations:

That Cabinet:

- 1) Approve the investment of £500,000 into Bristol Credit Union for a term of ten years at an initial coupon rate of 6% - with gateway reviews at years 2(3) and 5.
- 2) Delegates to the Director of Finance and the Director – Legal & Democratic Services to finalise the terms of the agreement for the investment in BCU
- 3) Delegates to the Director of Finance to agree a performance monitoring framework with BCU to identify early and mitigate any risk associated with the investment
- 4) Delegate authority to the Director of Finance Deputy Mayor in consultation with the Cabinet Member for Finance, Governance and Performance to give notice at year 5 for the release of the funds at year 10 or alternative revolving credit facility for a further 5 years (15years in total).
- 5) That Resources Scrutiny Commission be invited to consider the annual performance reports and accounts summarising the activity of the credit union

Corporate Strategy alignment:

1. This proposal set out in this report supports and aligns with the vision within the Corporate Strategy in playing a leading role in driving a city of hope and aspiration.
2. In particular the proposed investment supports the theme “Fair and Inclusive” making sure people have access to decent jobs and homes they can afford and where in this instance citizens of Bristol will have access to credit at a fair level of interest.

City Benefits:

The proposed investment in Bristol Credit Union will allow the credit union to expand and grow providing an increased number of low cost loans for those citizens across Bristol who in times of crisis need funds to bridge those periods of crisis. Examples of these loans include funds to minimise the risk of a loss of tenancy or home that could lead to consequential impact on individuals and families leading to a greater burden on the wider public sector.

Consultation Details:

None required

Revenue Cost	£	Source of Revenue Funding	<i>Insert specific service budget</i>
Capital Cost	£0.5m (revenue)	Source of Capital Funding	earmarked reserves arising from 2018/19 underspend
One off cost <input checked="" type="checkbox"/> Ongoing cost <input type="checkbox"/>		Saving Proposal <input type="checkbox"/> Income generation proposal <input type="checkbox"/>	

Required information to be completed by Financial/Legal/ICT/ HR partners:**1. Finance Advice:**

The proposed £0.5m investment in 2019/20 is expected to generate annual returns of 6% which compares favourably to the Council’s current average weighted interest rate.

The council has the ability to invest in non-rated institutions under our investment strategy subject to counterparty limits; however they do still need to be institutions of an investment grade and good credit worthiness. The Council is required to consider security, liquidity and yield in its investment decisions. Credit unions are often considered risky in terms of credit due to the business in which they operate and whilst the return on the face of it appears in line with market rates, the return (yield) on the investment is considered low given the associated risk. As such it is not recommend that an investment with BCU is made under our Treasury Management Strategy.

The investment proposal if successful will provide a financial return to BCC but more importantly provide a significant social return on investment and help BCU to continue to provide financial products to vulnerable residents in Bristol. The Council can incur expenditure, give grants and other financial assistance under powers set out in the Localism Act 2011 provided such powers are exercised reasonably as part of achieving the Council’s objectives. With this in mind,

the Council can support the credit union and make the necessary investment on lower than a more typical level of return would be.

The opportunity has arisen as a result of the 2018/19 financial position to finance the investment from earmarked reserves. The 6% return will form part of the capital financing for a maximum of 10 years.

There are risk associated to the investment which will need to be managed and mitigated through partnership working with BCU and JRF over the life of the investment and corrective action taken at the appropriate time.

Finance Business Partner: Neil Sinclair, Interim Finance Business Partner, 5th March 2019

2. Legal Advice: The Council has various powers permitting investments, including loans. The most commonly relied on is S.12 Local Government Act 2003 which permits investing for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs. In addition it has more general powers such as S111 Local Government Act 1972 (the power to do anything - including lending of money) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions: and the general power of competence under Section 1 Localism Act 2011. Care will need to be taken that any investment complies with appropriate state aid requirements, and that the rate of return on any loan is at a commercial level, or that an appropriate exemption applies.

Legal Team Leader: Eric Andrews, Team Leader, Legal Services, 20th March 2019

3. Implications on IT: There are no identifiable IT implications in this proposal.

IT Team Leader: Ian Gale, 6th March 2019

4. HR Advice: No direct HR implications for BCC.

HR Partner: James Brereton (People & Culture Manager), 7th March 2019

EDM Sign-off	Mike Jackson	13 th February 2019
Cabinet Member sign-off	Cllr Craig Cheney	21 st March 2019
CLB Sign-off	[name]	[date]
For Key Decisions - Mayor's Office sign-off	[name]	[date]

Appendix A – Further essential background / detail on the proposal	YES
Appendix B – Details of consultation carried out - internal and external	NO
Appendix C – Summary of any engagement with scrutiny	NO
Appendix D – Risk assessment	NO
Appendix E – Equalities screening / impact assessment of proposal	NO
Appendix F – Eco-impact screening/ impact assessment of proposal	NO
Appendix G – Financial Advice	NO
Appendix H – Legal Advice	NO
Appendix I – Exempt Information	YES
Appendix J – HR advice	NO
Appendix K – ICT	NO