

Decision Pathway – Report



PURPOSE: Key decision

MEETING: Cabinet

DATE: 03 November 2020

TITLE	Bristol Credit Union – Merger		
Ward(s)	n/a		
Author: Denise Murray	Job title: Director of Finance		
Cabinet lead: Cllr Cheney	Executive Director lead: Mike Jackson		
Proposal origin: <i>Other</i>			
Decision maker: Cabinet Member Decision forum: <i>Cabinet</i>			
Purpose of Report: To consider the proposal by Bristol Credit Union to increase its geographical area via a merger with Wyvern Savings and Loans Credit Union.			
Evidence Base: The Bristol Credit Union (BCU) is a not-for-profit social enterprise which can provide community members with access to affordable loans and competitive savings accounts, they also provide a much safer alternative to payday loan companies, pawn brokers and doorstep lenders which can be helpful for people who have a bad credit rating and are struggling to borrow from elsewhere. The geographical coverage of the BCU is currently the boundary of the former Avon County Council and supports over 15,000 members 76% of which are in Bristol. In July 2019 the Council invested £0.5 million in BCU. This investment was to enable the BCU to lever up an additional £0.350 million from charitable groups and to allow the 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. The planned programme of works and initiatives' are making good progress, however as with many industries the coronavirus pandemic as slowed the profile and performance targets. The latest quarterly investment report indicate that BCU are slightly below their forecasts in terms of loan book growth as the typical loan value is reducing as loans for larger "ticket items" such as car purchases are on hold but the number of loans BCU are making remains high (+23% on last year), making a significant difference to people who need to borrow smaller sums now to address the current financial / economic crisis. The BCU and Wyvern Savings and Loans Credit Union (WS&L) are electing to voluntarily merge with the acquirer purchasing all of the assets and assuming all of the liabilities of the acquired credit union and investor member agreement (such as the Council) is required to progress. If agreed this would increase the			

geographical area to add Gloucestershire, Wiltshire, Somerset and Dorset and the coverage, from circa one million population to three million, the current maximum allowed for a credit union.

The other investors for which approval is required, Bank Workers Charity and the Joseph Rowntree Trust have agreed to this merger with no changes to the existing investment terms.

BCU are seeking to leverage additional investment of £2m+ from a social enterprise founded to support the financial wellbeing of people in vulnerable circumstances. They aim to increase access to fair, affordable and appropriate financial products and services, increase affordable credit capacity by 10 times (to reach 40,000 of borrowers). By encouraging consolidation and geographical growth in the responsible finance sector the ambition is to ensure economies of scale whilst improving local access to services.

BCU are seeking to implement a “hub & spoke” model, setting consolidation and geographical expansion with WS&L key to their bid. If successful in raising investment then the credit union will be increasing local employment in their Bristol head office, as well as continuing to deliver local growth in services and more importantly increasing the quantum of lending in the Bristol and surrounding area, and therefore helping the number of people with access to affordable credit.

The bid for these funds is time bound and therefore the need to consider the merger has accelerated.

Impact of Merger

Wyvern Savings and Loans Credit Union (WS&L)

WS&L are a co-operative savings and loans organisation covering Dorset and Somerset and adjoining parishes. Their current loan book is low as a proportion of their deposits, which means they have begun to struggle to do more than break-even as grants have decreased. They have also found it difficult to recruit sufficient new members to the Board to enable existing long-term volunteers to step back and this is considered to be the rationale for seeking a merger with the BCU. Should the merger progress WS&L have and plan to continue to have a presence / offices in Dorchester.

Anticipated Positive Impact

The merger will result in a net transfer of assets (cash deposits / savings) making the merged credit union financially healthier that will enable possible further loans in Bristol and the surrounding region. Additional deposits (delayed due to the pandemic) are needed to grow the BCU loan book.

It is anticipated that increasing the coverage of the BCU via a merger will:

- Reduce the credit risk of the fund from “*localised*” changes in the economy.
- Generate operational Savings from economies of scale.
- Increase lending with appropriate loan/asset ratio to deliver income which will allow further investment in expansion and future services.
- Optimise the systems and technology developments at BCU across a broader geography.

Extract of two way organisational benefits from BCU papers.

Benefits



For Wyvern Savings & Loans	For Bristol Credit Union
✓ Build on 25 years of local success	✓ Build on 25 years of local success
✓ Gain investment into significant growth across Dorset and central & east Somerset.	✓ Accelerate the growth of credit union membership across a wide geography, building on existing intention to cover a broader area
✓ Offer a modern digital channel to members and potential members	✓ Gain economies of scale through the cloud based platform with core process-driven tasks such as daily banking centralised
✓ Meet local lending demand and optimise utilisation of cash balances	✓ Develop branch accounting and cross-charging
✓ Maintain Dorchester presence and further develop Bournemouth/Christchurch/Poole	✓ Create unique model of real, accountable local presence with the strength & stability of a group
✓ Work with BCU to develop system of control to enable local authority and accountability to members with centralised compliance approach	✓ Prove the growth plans & enable roll-out to further areas, potentially with further investment

Potential Negative Impact

- Currently within the existing geography the majority of loans remain in the Bristol area. Due to an expanded region there could be a strategic focus away from Bristol and a higher proportion of loans made outside of the existing region.
- Member retention or risk of depositor attrition could also occur if not proactively managed.

Due Diligence

BCU have undertaken due diligence in relation to the merger and recommendation received for the merger to progress. The Council's approval is required (subject to our final due diligence) to enable the investment bid outlined above to be submitted within the designated timescale.

Further Considerations for the Council

Digital Platform

As part of the Council's investment last year this provided finance to procure a new digital platform. This is due to go live shortly, (on budget albeit later than planned). This will improve the experience of accessing accounts including the use of apps including access from mobile phones. This improved experience could attract the opening of further accounts.

Working relationship with Bristol City Council

BCU also works with the Council to assist the Council in meeting service needs, primarily in housing. This includes;

- The provision of interest free loans to help homeless into housing.
- Supporting tenants in accessing Imperial Apartments accommodation.
- Supporting vulnerable persons resettlement scheme.

Council Due Diligence

Keeping products and services up-to-date is critical to remain viable in today's increasingly competitive financial marketplace and meeting the expectation of the target audience e.g. for online functionality are particularly high and will require ongoing investment. Mergers can be a healthy strategy for credit unions to increase member base, penetrate new markets and acquire new products and technology and the Council is keen to support BCU in achieving this. However mergers also present some increase risk which need to

be considered prior to final endorsement of the proposition. These include areas such as:

- Any existing WS&L investments that would not be recommended on BCU’s balance sheet. In these instances, the target institution usually sells any impermissible or undesired investments pre-merger and the acquirer accepts cash
- The projected loan losses from the new institution’s loan portfolio and potential need to increase the allowance for bad debt
- Member voting and dilution of member influence or availability of products and services to Bristol citizens
- Any increase risk of default on the terms of the existing agreement.

Mitigations

To provide assurance to the Council in terms of the potential dilution of the investment, BCU have confirmed that the existing savings and loans of members will not be affected by the merger in any way. BCU proposed that they will be “committed” to maintain a minimum amount of their lending in Bristol based on the Council’s share of investment. This will ensure that a material portion of the merged Credit Union loan book will remain to support the Bristol citizens.

The current breakdown of members and loans is set out in the table below.

Local authority	Members	Loans	Loan value	%
Bristol, City of	11,783	3,330	£4,407,972	68
Other	3,751	1,016	£2,096,577	32
Total	15,534	4,346	£6,504,549	100

Local authority	Members	Loans	Loan value	%
Bath and North East Somerset	1,155	282	£505,856	8
Bristol, City of	11,783	3,330	£4,407,972	68
North Somerset	392	118	£278,726	4
South Gloucestershire	1,748	516	£1,086,626	17
Other	456	100	£225,369	3
Total	15,534	4,346	£6,504,549	100

To ensure the investment and interests of the Council are protected the Council have recently appointed external professional advisors within the Social field to carry out an independent assessment of the proposal to summarise the benefits, risks and local social impact . This will allow the Council to consider the decision further, ensuring the Council’s interests are protected as far as possible.

Cabinet Member / Officer Recommendations:

To approve:

In principle the proposed merger of the Bristol Credit Union and WS&L and authorise the Director of Finance in consultation with the Deputy Mayor and Cabinet member for Finance, Governance, Property and Culture, to finalise arrangements subject to receiving a satisfactory due diligence report.

Corporate Strategy alignment:

The Council’s investment in BCU 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 investment in Bristol Credit Union allows 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

Background Documents: Cabinet Report April 2019

<https://democracy.bristol.gov.uk/documents/s31017/BCU%20investment%20110319%20v4.pdf>

Revenue Cost	£-	Source of Revenue Funding	n/a
Capital Cost	£-	Source of Capital Funding	n/a
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 expansion of the geographical area of the Bristol Credit Union and merger with WS&L present many financial and social risks and benefits. The social risks are mitigated by agreeing a “KPI” with the Bristol Credit Union to maintain a minimum value of loans within the City of Bristol based on the level of the Councils investment.

In order to protect the interests of the Council with regard to the current £0.5m investment the Council have appointed specialist advisors to carry out an independent review of both organisations along with the proposed merger. Following receipt of this the decision on the merger can be finally considered and undertaken.

Finance Business Partner: Jon Clayton, Capital and Investments Manager, Corporate Finance 19 October 2020

2. Legal Advice: The loan agreement requires the Council to consent to any transfer of arrangements, such consent not to be unreasonably withheld. There are also reporting requirements in the event of anything taking place that affects the financial standing of the Union. A number of the terms of the loan apply directly to BCU and its subsidiaries and so will apply to WSL, whether it merges fully with BCU or becomes a subsidiary. If BCC consents to the merger then the loan agreement should not be affected, although it does seem that the terms may be reviewed once things have settled down.

Legal Team Leader: Eric Andrews, Team Leader, Legal Services 21/10/20

3. Implications on IT: No anticipated impact on IT Services

Digital Transformation Director: Simon Oliver 19 October 2020

4. HR Advice: No HR implications evident

HR Partner: James Brereton (People & Culture Manager), 21 October 2020

EDM Sign-off	Mike Jackson	21/10/20
Cabinet Member sign-off	Craig Cheney	21/10/20
For Key Decisions - Mayor's Office sign-off	Mayor's Office	21/10/20

Appendix A – Further essential background / detail on the proposal	NO
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 BCU & WSL - Due Diligence Report	YES
Appendix J – HR advice	NO
Appendix K – ICT	NO
Appendix L – Procurement	NO