

Decision Pathway – Report



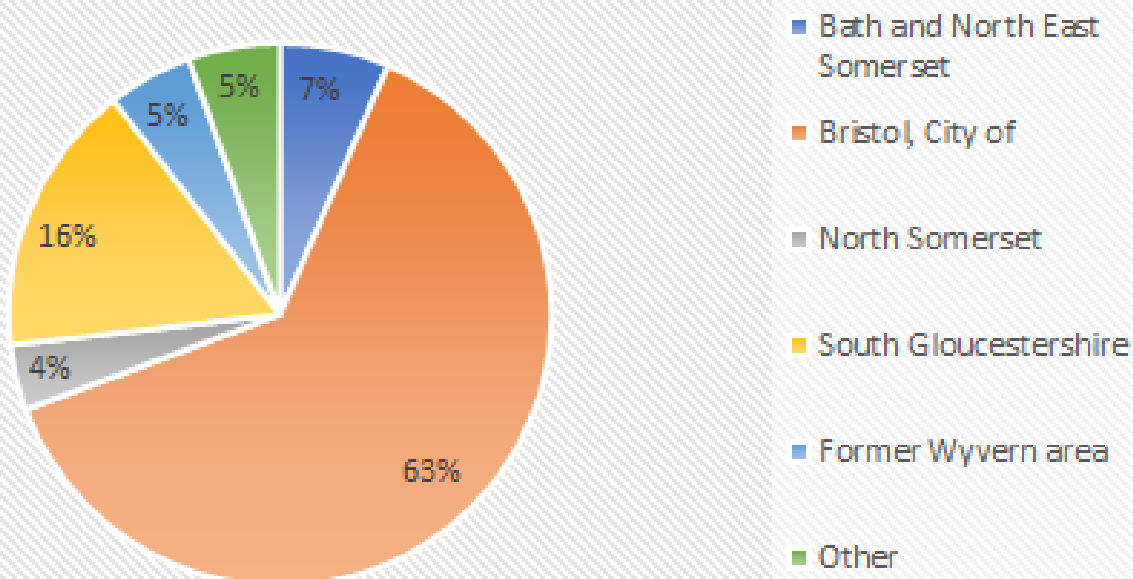
PURPOSE: Key decision

MEETING: Cabinet

DATE: 05 April 2022

TITLE	Great Western Credit Union – Approve Fair4All Investment and Approve Stroud Valley 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 the Great Western Credit Union (GWCU - previously known as Bristol Credit Union) to approve further investment of up to £1.5m from Fair4All funding, To consider the proposal by the GWCU to merge with Stroud Valley Credit Union and To provide an update on the Investment in GWCU and the recent merger with Wyvern Savings and Loans Credit Union (WS&L). Fair4All Funding have announced, following a previous extension, that the deadline for confirming investment to GWCU is 6 th April 2022 (following day after Cabinet). To enable this to proceed, it is necessary to notify Fair4All Funding of the Cabinet decision immediately after the cabinet decision, which therefore this decision needs to be exempt from the Council’s call-in procedure.			
Evidence Base: The GWCU 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 GWCU is the South West of England following the merger with Wyvern Credit Union in 2021. Originally the Credit Union covered the boundary of the former Avon County, the merger increasing this to include Gloucestershire, Wiltshire, Somerset and Dorset, increasing the coverage, from circa one million population to three million, the current maximum allowed for a credit union. The concentration of loans continues to be in the Bristol Region (63%) as summarised in the following table.			

Loan value



In July 2019 the Council invested £500k in the GWCU for 10 years at a market interest rate. This investment was to enable the GWCU to lever up an additional £350k million from charitable groups (investors) and to allow the GWCU to:

- 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 progress, however as with many industries the coronavirus pandemic has slowed expansion from the original plan. However, the latest quarterly investment report indicates that Loan book and deposits continues to grow and good arrears management has been maintained. Further information and key performance indicators are included in Appendix I.

Fair4All Finance

In the cabinet report dated the 3rd November 2020, GWCU set out that it was seeking to leverage an additional investment of £2m+ to increase access to fair, affordable and appropriate financial products and services and increase affordable credit capacity by 10 times (to reach 40,000 of borrowers).

Fair4All Finance has been founded by dormant funds to support the financial wellbeing of people in vulnerable circumstances, the ambition is to increase access to fair, affordable and appropriate financial products and services. These are similar values, aims and objectives to the GWCU and the rationale for the Council's investment.

Fair4All Finance have recently approved an investment to the GWCU to improve access to affordable credit and build capacity in the affordable credit sector through financial support. As part of the current arrangements the GWCU require investors approval to accept further investment.

Fair4All Finance have approved a £1.5m investment with an initial £500k and then a further £1m subject to match funding. The provision of match funding has been requested to attract external investment that is needed to support the continual sustainable development of Credit Unions.

In addition, Fair4All Finance have been awarded a grant of £130k to plan the expansion of the GWCU, including exploring external funding.

The structure of the investment is based on meeting **two** social key performance indicators as summarised below. These will be **reviewed and reset on annual basis, or more regularly if needed**, to reflect any planned changes to GWCU business model or the wider economic situation to ensure that these targets continue to be achievable.

Key Measures - the percentage of the value of lending to customers in vulnerable circumstances, and the percentage of the number of loans to customers in vulnerable circumstances
Vulnerable circumstances defined as, borrowers with income in lowest 4 deciles (disposal Income of £24k -£25k).

The targets and the applicable interest rates are detailed in Appendix I. Should these targets not be achieved then this will result in a higher interest rate based on the margin that these targets have not been met. This will ensure that the funds are invested in accordance with supporting the aims and objectives of both Fair4All funding and GWCU, ensuring a % of GCWU loans are provided to the vulnerable.

Quarterly meetings will be set up with investors to ensure we are aligned, as much as possible, in supporting GWCU to scale up affordable credit provision in the region. In addition should there be any movement in interest rate these will be discussed and notified by Fair4All funding to current investors before any change is enacted.

Should these measures and targets be implemented now, then the GWCU will meet these and the lowest interest rate margin will be applied. The interest rate that will be charged is the bank of England base plus the interest rate margin.

Based on current projections it is expected that this target will continue to be met and will form part of GWCU regular reporting for review. These measures were reduced to just two key measures to enable the GWCU to focus on the key requirements of making loans to the vulnerable. This will reduce the monitoring and reporting burden while also providing the GWCU with the opportunity to take corrective action, if necessary, in achieving these targets without having to try and affect a large number of measures at once.

In addition, should bank rate go above an agreed ceiling, the interest rate margin will be reviewed to protect the interest rate exposure of the credit union while also ensuring the rates for current investors are comparable with Fair4all funding.

The duration of the loan is 10 years from the date of the drawdown.

The acceptance of this funding has been extended from the end of March 2022 to the following day of this

cabinet report.

With regards the terms and conditions of any match funding, the necessary due diligence will be carried prior to the Council giving its approval to the GWCU to ensure this new funding does not adversely affect the City Council's investment.

Stroud Valley Credit Union (SVCU) proposed merger

The GWCU have proposed a merger with Stroud Valley Credit Union (SVCU) that is subject to BCC approval.

The GWCU and SVCU 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

SVCU is small compared to GWCU and the previous merger with Wyvern Savings and Loans credit union (WS&L) as shown in the table in appendix I. This merger will not have a material impact on the number and value of loans and deposits and or the risk profile of GWCU. In addition, the deposits of SVCU will provide capacity for further loans in the geographical region that the GWCU supports, including Bristol.

The strategic rationale for the merger is that it will allow GWCU to engage with local stakeholders to expand lending, deposits and membership in the Stroud Valleys area, improving the overall GWCU position and supporting Bristol-based employment where back-office functions are processed.

SVCU have decided to merge because their current loan book is low as a proportion of their deposits and are therefore currently making a small loss (circa £6k). GWCU recognise that there are opportunities to increase lending, either within Stroud or the region the GWCU serves including Bristol. The GWCU have recent knowledge and experience of a much larger merger with WS&L that will generate savings through further lending and from economies scale, through the use of the GWCU back office based in Bristol including the recently installed new banking platform.

The merger will result in a net transfer of assets (cash deposits / savings) making the merged credit union financially healthier that will enable GWCU to grow its loan book making further loans in Bristol and the surrounding region. In addition, by increasing the GWCU coverage to include the Stroud Valleys will reduce the credit risk of the fund from "*localised*" changes in the economy.

SVCU - Council Due Diligence

This merger with SVCU is considerably smaller than WS&L (circa 60%+ smaller than WS&L) and the due diligence carried out by the GWCU and reviewed by Council officers found no reasonable reasons not to support the GWCU board decision to the merger. This merger would provide the opportunity to achieve greater scale, is small, in terms of loans and deposits and management have the recent experience and indicate this merger is low risk and should also help reduce the overall risk to the current stakeholders, including BCC.

It should be noted that as part of WS&L merger, independent due diligence was procured by the Council that supported the merger. As this merger is much lower and GWCU's recent experience provides a level of assurance that the internal GWCU due diligence was undertaken with confidence, officers of the Council have placed an element of reliance on this.

Council officers have reviewed the due diligence report attached (appendix I) and the latest management

accounts (January 2022) for SVCU and conclude it is low value and low risk to the GWCU and the City Council's investment. It should be noted that the due diligence was carried out last summer but upon reviewing the management accounts (January 2022) of the SVCU that there is little change to the loans and deposits.

Council officers will continue to carry out further due diligence and currently conclude that there are no reasons "not to" support the proposed merger.

The other investors for which approval is required are from Bank Workers Charity and the Joseph Rowntree Trust and we are currently awaiting their response. To note, Fair4All funding although not a current investor, have provided their approval to the merger as part of their loan agreement. In addition the Prudential Regulatory Authority (PRA) have also approved the merger.

Mitigations

Currently the majority of loans remain in the Bristol area. Due to this merger there could be a focus away from Bristol and a higher proportion of loans made outside of the Bristol region. To provide assurance to the Council in terms of the potential dilution of the investment, GWCU have confirmed that the existing savings and loans of members will not be affected by the merger. GWCU have agreed 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.

Wyvern Savings and Loans Credit Union (WS&L) Update

The GWCU successfully merged with WS&L in the first quarter of 2021, the key headlines detailed below with further narrative and quantifiable information in Appendix I.

- Data and staff from WS&L successfully migrated to GWCU.
- Membership in the WS&L area increased by circa 18% (600 members) during the year.
- Lending in the WS&L area increased by circa £300k
- Deposits in the WS&L area increased by circa £150k
- The merger has meant an increased availability of cash to make loans to people across the membership area, including within Bristol. The number of loans to people in Bristol has continued to grow, increasing by several hundred across the period.
- Following this merger, the WSL loans have not changed materially from what was forecast and as planned increased GWCU profitability.

Cabinet Member / Officer Recommendations:

That Cabinet:

1. Approve the Investment of £1.5m from Fair4All Funding.
2. Authorise the Director of Finance and Director of Legal in consultation with the Deputy Mayor - Finance, Governance and Performance to review and approve (subject to the necessary due diligence being carried out) the £1m external match funding investment into GWCU.
3. Approve the proposed merger of the GWCU and SVCU in principle subject to satisfactory due diligence being undertaken.
4. Authorise the Director of Finance in consultation with the Deputy Mayor and Cabinet member for Finance, Governance, Property and Culture, to take all steps required to implement the merger subject to subject to satisfactory due diligence being undertaken.

Corporate Strategy alignment: The Council's investment in GWCU 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 GWCU 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 and Cabinet Report November 2020 https://democracy.bristol.gov.uk/documents/s31017/BCU%20investment%20110319%20v4.pdf https://democracy.bristol.gov.uk/documents/s53732/2020%2011%20003%20v2%20Cabinet%20Bristol%20Credit%20Union%20merger%20-%20DM.pdf

Revenue Cost	£-	Source of Revenue Funding	<i>n/a</i>
Capital Cost	£-	Source of Capital Funding	<i>n/a</i>
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:
<p>1. Finance Advice: The approval of the investment from Fair4All funding will enable GWCU to grow it's loan book to provide further access of financial products to the vulnerable in the South West region including Bristol. There is a low risk to GWCU and to the Council's investment unless the targets of Fair4Funding are not met and a subsequent higher interest rate is charged, and or bank rate increases.</p> <p>The values and goals of GWCU and Fair4All funding are aligned to support access to financial products for the vulnerable. Targets will be continually monitored, reviewed and reset on an annual basis to ensure that these remain achievable. Quarterly investor meetings are diarised to review the performance of the fund and key performance indicators (KPI's) and any change in rate, noting the risk is minimal, will be consulted on.</p> <p>In addition, should bank rate exceed an agreed ceiling then the interest rate margins will also be reviewed and reset to ensure the interest costs are not excessive and is not a financial burden to GWCU that could restrict the provision of financial support. In addition, this ceiling will also provide assurance that Fair4All funding interest returns are similar to current investors.</p> <p>The merger with SVCU is low in value , numbers and of low risk and provides a strategy for GWCU to increase member base, penetrate new markets and provide net assets to grow its loan book. The Councils interest is protected by an agreement by the GWCU ensuring that a proportion of the loan book, equivalent to the Council investment, will support the citizens of Bristol.</p>
Finance Business Partner: Jon Clayton, Capital and Investments Manager, Corporate Finance 7 th February 2022
<p>2. Legal Advice: The Loan Agreement between the Council and GWCU from July 2019 states that any additional borrowing by GWCU is subject to the consent of BCC which may not be unreasonably withheld. That agreement also requires consent on similar terms to any merger or acquisition with another body. The consent to either transaction will not affect the terms of the agreement or the ultimate repayment of the loan that it grants. As the current due diligence reports indicate that the outcome of both transactions will have a positive effect on GWCU's business and</p>

extend its ability to provide loans, there are no reasonable grounds to deny consent. It is clear however that further due diligence is proposed – as detailed in the report. Accordingly, the Cabinet decision sought is an “in principle” support, subject to the concluding of any further investigations; together with delegated authority to proceed should the outcome continue to support the proposal.

Legal Team Leader: Eric Andrews Legal Services 11.3.22

3. Implications on IT: I can see no implications on IT in regards to this activity

Digital Transformation Director: Gavin Arbuckle – Head of Service Improvement and Performance 18th February 2022

4. HR Advice: No HR implications evident

HR Partner: James Brereton (HR Business Partner), 16th February 2022

EDM Sign-off	Mike Jackson	21 st February 2022
Cabinet Member sign-off	Craig Cheney	21 st February 2022
For Key Decisions - Mayor's Office sign-off	Mayor's Office	14 th March 2022

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 GWCU & SVCU - Due Diligence Report, Fair4Funding loan arrangements	YES
Appendix J – HR advice	NO
Appendix K – ICT	NO
Appendix L – Procurement	NO