

TITLE	Appendix A2 - Great Western Credit Union Seeking approval from Bristol City Council to approve a Loan from City Funds LP	
Ward(s)	n/a	
Author:	Jon Clayton	Job title: Capital & Investments Manager
<p>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 £700k loan from City Funds LP that will also lever in part of the match funding from Fair4All funding, along with providing further affordable finance.</p> <p>As the Council is an investor, the agreement between the Council and GWCU states that any additional borrowing on “substantially” different terms is subject to the consent of Bristol City Council (BCC). The request is to issue a 7 year loan (maturing circa September 2030), compared to the Council 10 year loan maturing in 6 years’ time (July 2029) and therefore GWCU are seeking the City Council’s approval.</p> <p>As set out in the Cabinet report (5th April 2022), Cabinet approved the Fair4All investment and the decision to approve match funding (£1m) has been delegated to the Director of Finance and Director of Legal in consultation with the Deputy Mayor - Finance, Governance and Performance (subject to the necessary due diligence being carried out).</p>		
<p>Evidence Base: GWCU is a not-for-profit social enterprise which can provide community members with access to affordable loans and competitive savings accounts. They provide employee financial wellbeing services through their Money@Work proposition, and 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.</p> <p>The City Council use the Credit Union to help support projects such as preventing Homelessness, UK Resettlement Scheme and Homes for Ukraine.</p> <p>Following recent mergers, the geographical coverage of the GWCU is the South West of England serving a population of three million across the former County of Avon, Gloucestershire, Wiltshire, Somerset and Dorset.</p> <p>The concentration of loans continues to remain in the Bristol Region (circa 60%).</p> <p>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 from charitable groups (investors) and to allow the GWCU to:</p> <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. <p>Fair4All Finance In the cabinet report dated the 5th April 2022, the Council approved the investment from Fair4All funding</p>		

of £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.

The Credit Union were successful in attracting circa £840k from bond issue and a further loan of £700k from City Funds LP taking the total funding package to £1.54m, £540k above the delegated authority previously provided within the Cabinet report (5th April 2022) for which Cabinet approval is sought.

Other Investors

The other investors have granted their approval for the loan and it should be noted that Fair4All finance approval has been granted that will enable the release the match funding of up to £1m.

Update of GWCU

The planned programme of works and initiatives have made good progress, with the new digital platform launched in November 2020 and the loan book continuing to expand, as well as progress on growing the employer payroll partnerships (including recent partners St Monica Trust and University of Bristol) as well as reactivating current partners (for example the Council).

The coronavirus pandemic slowed expansion from the original plan and subsequently the cost-of-living crisis has hit many credit union members, many of whom are already financially vulnerable, particularly hard, leading to higher than expected impairment costs and slower than planned growth in new lending.

Whilst GWCU continues to show strong year-on-year levels of loan book growth, and arrears levels have now been stabilised, GWCU key indicators are not as far advanced as forecast in 2018/19 prior to the Council's investment, or indeed to the forecasts available when Fair4All Finance's investment was agreed in April 2022.

It should be noted that following the cost of living crisis the GWCU credit criteria have been tightened. This has resulted in more loan requests being turned down but those which are approved are being repaid at a higher rate than previously. The GWCU are also approving more employer partner lending which is typically lower risk.

In summary the planned programme of works and initiatives are making progress, however, as with many industries, the coronavirus pandemic and the cost of living crisis have slowed expansion from the original plan and has had a negative impact on bad debt provisions and retained profits.

GWCU had always anticipated requiring further capital investment as part of its business plan to support its ongoing growth in serving people and communities across Bristol and the broader South West.

This capital will assist **to provide support for GWCU's regulatory and financial position** and continue to support further borrowers who are on lower incomes and therefore more exposed than others to inflation and increased cost-of-living.

Loan Issue

The proposed terms of the loan are a fixed rate loan over a 7 year term. The proposed terms differ slightly to those that apply to the Council's investment in that the interest rate is marginally higher and the duration shorter. However, it should be noted that the City Council's investment is due to mature in 2029, 6 years to maturity, **so repayment of the Council's investment is before this new investment on the current proposed terms.**

Bank of England rate increased to 5.25% in August 2023 v 0.75% in 2019 when the Council's investment was made, setting a broader context around the need for an increased rate for this new investment offer.

With regard to the term, which is 3 years less than the Council's (although maturing one year later for comparative purposes) this coincides with City Funds to returning funds to its investors.

Benefits & risks to current investors and members of the raise (and no raise or unsuccessful raise due to less than ideal terms)

Current investors will benefit from an increase in the overall level of investment into GWCU which will enable GWCU to maintain its growth strategy despite the strong headwinds of the cost-of-living crisis.

Members, including those across Bristol, will benefit from greater accessibility to further affordable credit, particularly when other lenders have withdrawn from the market altogether leaving limited legal options which is leading to a rise in **loan shark activity**.

In the unlikely event of insolvency/windup of GWCU any residual assets would be applied to satisfy liabilities to a greater number of investors and therefore the Council would potentially receive less return in such circumstances than it might otherwise where its investment represented a greater proportion overall, but the new investment will capitalise the GWCU further making it less likely to become insolvent, thus protecting current investors' position.

Financial Outlook

GWCU has embarked on a plan to grow to 10 times the size over 10 years. GWCU has achieved rapid growth in making affordable loans to people who might otherwise be excluded from the financial system, despite the effects of the coronavirus pandemic and cost-of-living crisis. As a part of this plan, capital is required in stages for growth, to support costs, in staff and engaging the public. The efficiencies already made and growth achieved will contribute to a surplus from 2026 that will enable GWCU to repay all current and future investors on time.

Due Diligence

Meetings have taken place between key stakeholders along with review of the regular financial reports, business plans and forecasts that support the growth and capitalisation of the credit union. Regular reporting will continue as normal to monitor the Council's investment risk exposure due to the GWCU operational, market and regulatory risks they are exposed to.

GWCU request

The GWCU are seeking approval from Bristol City Council to accept the loan from City Loans to maximise the match funding and ensure the financial resources are available to support loan growth. The loan rate is fixed with a duration of 7 years and not materially different to the Council's loan to GWCU. It should be noted that when the City Council invested in 2019, interest rates and financial markets were significantly different compared to today, base rate being 0.75% compared to 5.25% and inflation being circa 2% compared to double digits.

Cabinet Member / Officer Recommendations:

1. Approve GWCU request to approve a loan from City Funds of £700k at a fixed rate for 7 years.

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 maintain 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, Cabinet Report November 2020, Cabinet Report April 2022
<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>
<https://democracy.bristol.gov.uk/documents/s71395/2022%2004%20005%20Cabinet%20GWCU%20Fair4All%20DR AFTv4JC%20FINAL.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:

1. Finance Advice: The approval of the loan will capitalise the GWCU further, enhancing it’s regulatory controls that are currently above recommended parameters and enable the GWCU to continue to grow it’s loan book to provide further access of financial products to the vulnerable in the South West region including Bristol.

The cost of living crisis has as made the market from which the GWCU operates higher risk. This is being managed and has been evidenced by tightening the credit criteria. This has proven successful over the past year as the level of bad debts on new loans are back at pre pandemic levels. Further regular reporting will continue to monitor the Council’s investment due to the GWCU markets it operates and the social benefits the GWCU provide to the citizens of Bristol.

The addition of this new investment will capitalise the GWCU further but in an unlikely event of default the Council will be in a larger pool of investors for distributions.

Finance Business Partner: Jon Clayton, Capital and Investments Manager, Corporate Finance 18th October 2023