

**Report of: Assistant Chief Executive (Citizens and Communities)**

**Report to: Executive Board**

**Date: 21 October 2015**

**Subject: Long term Strategic Partnership with Leeds City Credit Union.**

Are specific electoral wards affected?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity or cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for call-in?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If 'yes', access to information procedure rule number:		
Appendix number:		

**Summary of main issues**

This report updates members of Executive Board on the innovative joint work being undertaken between Leeds City Council and Leeds City Credit Union to tackle poverty in Leeds, and increase access to affordable financial services. The report also sets out the long-term strategy for ongoing partnership working.

Since the launch of the Council's Financial Inclusion Strategy in 2005, Leeds City Credit Union has seen year on year increases in both membership and lending, there are now 31,000 Leeds members up from 11,000 in 2005.

Using the Council's community hubs, one stop centres, housing offices and schools network the focus of the partnership working has been to provide locally based affordable financial services, in order to tackle high cost lending and mitigate the impacts of welfare reforms.

The credit union has an ambition to build its loan book to £20m (currently £8m) in order to make a material impact on the estimated £90m high cost lending market in Leeds. Key ambitions for the future include;

- Developing partnerships with social housing providers, to provide products specific to this sector.
- Supporting a strong social economy and promoting civic enterprise, through designing products and services for businesses, and start-ups.

- Widening the demographic of the membership base.

The report also provides commentary on the Council's decision in 2009 to provide a loan to the Credit Union to assist with the stabilisation of the Credit Union's financial position. The loan is due for repayment in 2019 and options are described for continuing support to be made available. Of the available options, the report recommends the rescheduling of the loan as part of a longer term strategic view of the partnership working between the Credit Union and the Council.

## **Recommendations**

That Executive Board;

1. Notes and welcomes the significant progress made and projects developed through the partnership between the Council and Leeds City Credit Union which has helped in the delivery of the Council's strategic objectives on financial inclusion and poverty alleviation and further welcomes the ongoing strategic approach to the partnership work.
2. Authorises the Council entering into an agreement with the Credit Union in connection with the continuing support from the Council to the Credit Union, the approval of the terms of such agreement to be delegated to the Assistant Chief Executive (Citizens and Communities).
3. Agrees to the re-scheduling of the loan to the Credit Union as set out in paragraph 3.38 of this report with the detailed arrangements being subject to determination by the Assistant Chief Executive (Citizens and Communities).

## **Purpose of this report**

- 1.1 This report updates members of the Executive Board on the Council's joint work with Leeds City Credit Union (LCCU) to tackle poverty in Leeds. The report also sets out the long-term strategy for ongoing partnership working.

## **2 Background information**

- 2.1 LCCU is one of many partners in the city who work alongside the Council to help combat the problems brought about by financial exclusion. Residents and households who are deemed to be financially excluded do not have easy access to affordable banking services and in many cases unable to access cheaper goods and services. In the more deprived areas of the city this can result in debt issues for families and getting into arrears with rent and other priority payments.
- 2.2 Many residents use high cost lenders, including the relatively recent entrants to the financial services market, the Payday Lenders. Up to this year, the market leaders in this business charged interest rates of over 5,000% APR on their loans. However, following a vigorous national campaign the Government asked the Financial Conduct Authority (FCA) to look into the possibility of capping the cost of credit. After a consultation process the FCA introduced a cap from January 2015 (along with other control mechanisms). The Council's view at the time was that the cap did not go far enough and some Payday lenders still charge rates of over 1,300% APR (this is within the new cap limits). It is with this in mind that the Council believes that it is necessary to continue engagement with our many partners such as the advice sector, social housing providers and particularly LCCU.
- 2.3 LCCU has its origins as a City Council credit union, open to membership for all City Council employees and their families in 1987. Since that time, through changes to the common bond (the areas under which individuals are eligible for membership) and mergers with other community based credit unions, LCCU has grown to become one of the largest "live and work" city based credit union in the UK. Membership is open to anyone who lives or works in the Leeds Metropolitan District and their families.
- 2.4 Recently LCCU widened its common bond when White Rose Credit Union (Wakefield) merged with LCCU and the area of Craven District and Harrogate became part of the reach of LCCU. This has provided greater capacity for LCCU but for the purposes of this report it is solely the Leeds area and Leeds credit union membership that is the subject of discussion.
- 2.5 Following the launch of the City Council's Financial Inclusion Strategy in 2005 a programme of branch expansion was initiated with the aim of providing credit union facilities in Council One Stop Centres and Housing Offices. This increased the number of branches from two in 2005 to six full service branches and five information points by 2015.
- 2.6 Since 2005, LCCU membership has increased significantly from 11,000 members to almost 31,000 Leeds members today. Much of this growth has been new members on low incomes or benefits. Total membership, including members of the former White Rose Credit Union now stands at 36,000.

### **3 Main issues**

#### **3.1 Social and economic impact of Leeds City Credit Union**

- 3.2 The close partnership working and the pursuit of initiatives to reach those most in need of affordable financial services has resulted in year on year increases both in terms of membership and lending. Between June 2014 and 2015, membership increased by 11% from approximately 28,000 to over 31,000, whilst lending increased by 53%.
- 3.3 There is a considerable base of evidence to show that there is a significant return to the city on the investment and support provided to LCCU. LCCU has worked closely with the Council and partners to develop support and expand delivery of affordable financial services for residents who do not have access to affordable banking services.
- 3.4 In practice this has meant developing the best products and services in the best locations for Leeds citizens. Evidence from the New Economics Foundation (2014) has found that credit unions deliver greater financial inclusion than mainstream providers by successfully lending to low-income households and those with impaired credit access. In Leeds this situation has been enhanced by the sustaining of cash branches in areas not well served by the mainstream banks.
- 3.5 Research undertaken for Leeds City Council in 2009 found that credit union services generated approximately £3 million in increased disposable income for Leeds residents. The study also found that for every £1 invested in these services, £9 is generated for the economy. Analysis of the recent credit union lending figures demonstrates that the total value of loans to people on low incomes in the quarter ending September 2015 is approximately £1.6 million. If these loans had been taken out with a high cost lender instead of LCCU an extra £1,025,000 would have been paid in interest payments.
- 3.6 Since 2009, the total loan book for loans to financially excluded members has increased from £2.3m in 2009 to about £5m currently. On this basis the likely current value of increased disposable income to Leeds families will be in the region of £6.5m. It is also the case that this value is likely to be an underestimate. The calculations in 2009 were based on the comparison with doorstep lenders charging interest at around 300% APR. Since that time there has been a massive increase in numbers of high cost lenders, including payday lenders, charging significantly higher rates of interest (see background information above). If this was taken into account the actual current increased savings for families would be significantly greater. During the most recent quarter ending September 2015, low value short term lending was approximately £1.6 million and much of this lending would have been to low income families. If these loans had been taken out with a high cost lender instead of LCCU, the extra cost to these families would have been over £1m in higher interest payments.

- 3.7 The 2009 research also included a survey of LCCU members, to assess the impact of the services they received on their financial circumstances and more generally their quality of life. The survey found:
- 52% felt they were financially better off, and were now able to save, buy food, things for their children and pay bills.
  - 64% believed their money management skills had improved.
  - 52% their quality of life had improved.
  - 45% stress levels about financial matters had reduced.
  - 25% could now buy the food the family needed.

3.8 These findings support research undertaken in 2014 by the Mental Health Foundation which asked people to identify the causes of their anxiety, almost half of those surveyed (45%) said that financial issues caused them to feel anxious (Living with Anxiety, 2014).

### 3.9 Key partnership initiatives

- 3.10 LCCU is a key partner in helping to tackle financial hardship in the city and this partnership has been instrumental in addressing high cost lending and mitigating some of the impacts of welfare reforms. Key projects that have been developed are set out below, but there are also a number of other initiatives where the Council and LCCU have and continue to work together.
- 3.11 Using the **Community Hub and One Stop Centre network** across the city, LCCU is providing locally based financial services to those most in need. LCCU has full branch services at five Community Hubs and One Stop Centres across the city and information points at five others. Work continues to ensure that these facilities are well promoted and used.
- 3.12 “**Your Loan Shop**” was launched in August 2014, to compete directly on the high street with the high cost cash shops. The loan shop is located at former council premises on Roundhay Road, and is supported by a website. There is also a customer service area where online applications are available along with all other LCCU products and services.
- 3.13 In response to the growing need to provide affordable loans to a wider client base, LCCU established a Community Development Finance Institution (CDFI) **Headrow Money Line (HML)**. HML was set up as an independent charity but operates as a ‘sister’ organisation to LCCU. As a CDFI it is able to offer loans which are marginally higher risk than can be offered by the credit union as they are able to charge higher rates of interest. If people are declined a credit union loan, they are asked if they would like to be referred to the Headrow Moneyline. This enables people to re-build a credit history so that if they need to borrow again, they can access cheaper credit options, including the credit union.
- 3.14 Credit union **schools saving clubs** are running in about 20 primary schools and funding has now been obtained to produce an automated IT based accounting system for schools savings club work. This will assist in enabling schools savings clubs to be delivered with less need for detailed involvement from school staff therefore making the project more attractive to schools. Presentations have been

delivered to Cluster Managers and Governor Forums to promote work with schools.

- 3.15 Housing Leeds fund LCCU to deliver a citywide **Money Management and Budgeting Service**. The service is primarily focused at Housing tenants who are in arrears and struggling to pay their rent due to low incomes or poor money management. The support service is delivered by three LCCU staff members and aims to provide timely intervention to avoid court proceedings. 14 surgeries are held across the city on a weekly basis, residents are signposted to specialist partners if required, and also conduct income and expenditure reviews as well as setting up payments through the bill paying and budget accounts. This service will be of even greater value when Universal Credit is rolled out in Leeds in early 2016.
- 3.16 In 2014, LCCU launched a **new website** which enables speedier membership and loan applications. They were also involved with the Council **Take a Stand** and Leeds **Money Information Centre (MIC)** marketing promotion campaigns. With the support of the Council, major pre-Christmas marketing campaigns have run for the past two years, which is traditionally the biggest lending period in the year for all financial institutions. This has included; advertising at Leeds railway station, bus and bus shelter adverts, door drop to 51,000 households, Leeds City Council payslip adverts and social media – Facebook and Twitter. In the quarter before Christmas trading period, LCCU lending increased by 27% between 2012 and 2013, and 21% between 2013 and 2014.
- 3.17 LCCU was one of only two credit unions in the country to be selected to help new entrepreneurs to set up in business under the Governments **Start-up loans scheme**. To complement this scheme, LCCU has commenced enterprise lending from its own lending funds and intends to grow this area of the business to assist with the City's regeneration and employment ambitions.
- 3.18 LCCU is also currently assisting with the administration of loans in connection with the Council's **Empty Property Initiative**. This is a new scheme aimed at providing loans to owners of empty homes to help bring them into use. This scheme has only just been launched but it is hoped that it will assist in bringing back into use thousands of houses which are currently not available for occupation.

### 3.19 New initiatives

- 3.20 At a major launch event held at Compton Road Community Hub on Friday 11 September, **three new initiatives** were announced which it is hoped will help to build further on the success of LCCU and make a significant difference in trying to help people out of the hands of the high cost lenders. The initiatives are:
- A web based Pay Day loan product charging credit union rates.
  - A deal, involving a gift card scheme, with a number of high street retailers to provide domestic appliances, furniture and electronic goods at prices up to 50% cheaper than high street rent to buy stores.
  - An expansion of the credit unions successful "Your Loan Shop" which started trading last year and is now being set up and supported in the Councils Community Hub at the Compton Centre in Harehills.

- 3.21 The latter two initiatives are believed to be unique to Leeds, being the first to be established anywhere in the country.
- 3.22 **Future strategy and ambition**
- 3.23 Looking ahead the credit union has an ambition to build its loan book to £20m (currently £8m up from £7m in 2013) in order to make a material impact on the estimated £90m high cost lending market in Leeds. It is felt that this level of affordable borrowing would start to disrupt the high cost lending market. The growth phase of this plan will require investments in staff, technology and marketing. In addition to reducing the market share of the high cost lenders, the plan would also see a considerable additional saving for households and the local economy and further build the capacity of the credit union. The following section outlines the future focus of action for the credit union.
- 3.24 LCCU is leading the way with its partnerships with the city's social housing providers including housing associations. The main focus of the current work is working with tenants and housing staff around budgeting and financial education. Ambitions in this area include;
- Developing a product around saving for a deposit on a home.
  - Working with Community Housing Trusts to purchase land and build affordable homes at scale.
  - Providing mortgages in partnership with the Council.
  - Expanding on the success of the "Green Deal" initiative in which loans were assessed and underwritten by LCCU to encourage residents to make energy efficient improvements to their properties. This scheme has now ended but the credit union is keen to develop a scheme which could include lending to residents or social enterprises looking to retro-fit properties.
- 3.25 Leeds as a city is one of the leaders of "Civic Enterprise". LCCU are keen to support a strong social economy and are investigating;
- Offering loans to corporate members looking to start up service based mutuals and spin-outs (particularly in social care).
  - Supporting the delivery of asset transfer by offering community loans.
  - Through Headrow Moneyline, offer loans to riskier ventures, such as new business start-ups and university spin-outs, that support the City's ambitions around resource efficiency and "Smart Cities".
- 3.26 LCCU is proud to be seen as a financial institution for the unbanked and the most vulnerable in our society. However, there is much to be learned from international credit unions, which as a matter of course serve a much wider demographic. In order to do this the credit union is considering;
- Targeting companies more aggressively to sign up to pay-roll deductions.

- Building on the successful marketing campaigns referred to above and continuing to pursue more imaginative marketing strategies and mediums.
- Expanding their high street presence by developing the “Your Loan Shop” model.
- Setting up a distinctive product to help savers looking to purchase a season ticket for any of the local sports teams.
- Taking advantage of the pride Leeds residents and businesses have in the Leeds “brand” by starting a campaign for local banking - encouraging investors to take out deferred shares in LCCU, knowing that the investment would return to the city and its people.
- Investigating new administration and banking platforms to develop better products and services for members. Recognising the need to respond to the increasing use of smart phones and new mobile devices to access loans and savings services.

### 3.27 Universal Credit

3.28 The radical transformation of the national benefits system with the introduction of Universal Credit (UC) will prove to be a challenging time for both the council and many Leeds residents. The Council is currently making preparations for the introduction of UC in Leeds in February 2016 and the Citizens and Communities Scrutiny Board are conducting an investigation looking at the plans which are being progressed.

3.29 One of the important aspects of UC introduction is ensuring that partners are well briefed and that there is good coordination between partners.

3.30 LCCU will be one of the Council’s key partners in this work to support citizens affected by Universal Credit and ensuring that mechanisms and facilities are put in place to maximise help available. Some of these important work areas include;

- Designing and refining budgeting style accounts to help UC claimants to manage their household budgets more effectively.
- Working directly and through partners to ensure that all residents have accounts which are suited to receive UC payments and manage household expenditure.
- Continue to work with social landlords to provide assistance to tenants finding difficulty with managing their rent payments.

3.31 In terms of continued collaboration with the Council, there is an intention to continue the quarterly Development Working Group. This is the practical way in which the Council and LCCU manage joint working and develop new activity. The working party has representatives from LCCU and all council directorates. For example, the credit union is currently investigating with Adult Social Care how to reach out to the many care workers in the city who may benefit from payroll savings or access to affordable credit.

### **3.32 Consolidation of LCCU Financial Base**

- 3.33 In 2009, as part of a set of proposals to stabilise the financial position of LCCU, a subordinated loan was provided to LCCU on a commercial basis. This served to stabilise the reserves position of the credit union and satisfy regulators. The loan was subsequently rescheduled and is currently due for full repayment in April 2019. The current value of the outstanding loan is £1.19m. Interest of £54,000 per year is payable until that date. Officers have been exploring with LCCU how the value of this loan can continue to be utilised in a way which would continue to support LCCU's ambitions but would also safeguard the council's investment.
- 3.34 One of the reasons for providing the subordinated loan in 2009 was to ensure that LCCU could meet its regulatory requirements relating to maintaining a capital to total assets ratio which at the time was set at 8%. At the time, LCCU faced some significant financial challenges and their annual accounts showed an operating loss for a number of years. Following a change of management and a much more robust system of financial management being put in place the finances of LCCU were stabilised as part of a longer term business plan (of which the subordinated loan formed part of the process). By 2011 LCCU returned a modest operating surplus and in 2013 the Financial Services Authority (FSA) declared that LCCU was meeting all of its regulatory requirements from that point, particularly in respect of the capital ratio. The turnaround of the financial fortunes of LCCU are a testament to the diligent work of LCCU management and staff alongside the support of the council as an important strategic partner. LCCU and its management are committed to continue the strengthening of the credit union still further. The availability of the subordinated loan will be very helpful in this respect, especially if potential changes to capital ratios described below come into force.
- 3.35 The FSA has subsequently been succeeded by the Prudential Regulation Authority (PRA) in respect of capital ratio requirements. As indicated above, the PRA require credit unions to hold a capital to total asset ratio of 8%. However, subsequent to the recent discussions with LCCU about options for the Council's investment, there have been further developments by the regulators. The Prudential Regulation Authority (PRA) has issued a proposal for consultation on requirements for credit unions to hold a higher level of capital ratio than is currently the case. The PRA are proposing in their consultation that this should be increased to 10%. Currently, LCCU's accounts show that their capital ratio stand at 11% and is well within the regulatory provisions. However, if LCCU repays the subordinated loan, its reserves will reduce to 9%. This is still within the current regulatory requirement but if the outcome of the PRA consultation is to increase capital ratios to 10%, LCCU would not be able to meet this requirement without some form of capital injection. This is not just a challenge for LCCU but many other credit unions around the country might find these new requirements to be onerous.
- 3.36 Although the discussions about options for the current loan have been ongoing prior to the PRA issuing its consultation it would now seem that these proposals may be very timely in order to ensure the financial stability of LCCU under a

potentially tighter regulatory situation. The PRA will announce its intentions in new regulations to be published in December 2015.

3.37 Three options for the council's future investment have been considered as follows:

3.38 Rescheduling the subordinated loan

3.39 In 2009 the Council provided LCCU with a loan (current value is £1.19m) at an interest rate of 4.5%. The original loan was rescheduled with effect from April 2010 and is currently due to be repaid in April 2019. Therefore, the loan has 3 ½ years to run and it is proposed to reschedule the loan into a 10 year loan. This will assist LCCU with the anticipated change in regulations (as referred to in paragraph 3.34). LCCU would continue to pay interest payments but these would be in line with current interest rates which are now considerably lower than rates in force on the existing loan. The current loan interest payments are set at 4.54%, which is in line with interest rates when the loan was last rescheduled in 2010. Since then the market interest rates have fallen.

3.40 Investment in a deferred share

3.41 As a result of changes in legislation for credit unions it is now possible for corporate bodies to invest in credit unions and become a shareholder in the same way as an individual member. This offers the opportunity for the council to convert the subordinated loan to an investment or 'share'. In order for this to be effective in terms of consolidating the credit unions capital reserve the investment would have to be made by way of a 'deferred share'. This means that the council would not have the automatic right to withdraw the money except under the terms of a specific agreement laid down between the council and the credit union, subject to PRA approval. Because of this, from an accountancy point of view, the investment would very likely have to be treated as an immediate revenue cost. It should also be noted that this would not be like buying a share in a company, in that the Council would not become an owner of LCCU – it would simply be depositing a sum of money with LCCU which the latter would then hold in accordance with its rules.

3.42 Writing off the loan

3.43 The further option would be to write off the loan. As this is a revenue based loan, this would mean an immediate revenue short fall on the council budget, which is not deemed to be desirable.

3.44 Status quo (do nothing)

3.45 A potential option is to leave the situation as it is and the subordinated loan would be paid back in 2019 in line with the current agreement. However, this would have consequences for the PRA's regulatory requirements. Although the loan is not due for repayment until 2019 the PRA would require that the value of the loan be reduced in value, from the point of view of the capital to total asset ratio, by 20% per year, starting from April 2015. By 2019, even before the loan is repaid, its value will have reduced to zero. Although LCCU would still meet the current regulatory requirement (8%) after repaying the loan – notwithstanding a potential increase in the requirement to 10% as described in para 3.35 above – there would

be little buffer in place in the event of any potentially unforeseen shocks within the UK financial system. Therefore, the do nothing option is not considered to be a realistic or robust proposal to consider.

## **4 Corporate considerations**

### **4.1 Consultation and engagement**

4.1.1 This report has been prepared in consultation with LCCU, and the relevant officers from across the council including in finance, legal and housing.

### **4.2 Equality and diversity, cohesion and integration**

4.2.1 A key focus of the partnership work between LCCU and Leeds City Council has been to support people suffering hardship, poverty and inequality, and therefore issues of equality, diversity, cohesion and integration are key aspects of this work. The projects and initiatives outlined in the report are central to the council's financial inclusion strategy, which has been subject to a detailed Equality Impact Assessment which is attached as an appendix to this report.

### **4.3 Council policies and the best council plan**

4.3.1 'Supporting communities and tackling poverty' is one of the Council's six Best Council Plan objectives. The activities set out in this report support the 'helping people out of financial hardship' priority in the Best Council Plan and proposition under the Citizens@leeds approach to tackling poverty. It also supports objectives in the Safer Leeds Strategy, the Children's and Young People's Plan, the Child Poverty Action Plan and the Leeds Joint Health and Wellbeing Strategy all of which have a strong focus on addressing debt, maximising income and moving people and families out of poverty.

### **4.4 Resources and value for money**

4.4.1 The rescheduling of the subordinated loan will result in lower interest charges being made and this will result in a reduced income to the Council of approximately £22,000 per year until April 2019 (the current repayment date). However, income from the loan over previous years has been generally above market rates and it is considered that overall the Council has received good value from the loan whilst at the same time providing valuable assistance to an important strategic partner.

### **4.5 Legal implications, access to information and call-in**

4.5.1 Section 1 of the Localism Act 2011 empowers the Council to do anything that individuals generally may do, subject to any restrictions as to the use of its powers to which the Council was subject when that Act came into force or which have subsequently been imposed.

4.5.2 As regards the provision to LCCU of the assistance referred to in this report, in so far as the Council is subject to statutory restrictions (such as its fiduciary duties to council tax payers) it is believed that the Council is complying with these. It should be noted though that the activities of the Council are also subject to the European Commission's rules as to the provision of State aid.

4.5.3 State aid occurs when public resources are used in a way which gives an organisation an advantage over its competitors in a way which distorts or is likely to distort competition between European member states. A number of cases have

made it clear that the provision of assistance to credit unions is subject to the State aid rules and the Council will therefore have to comply with those rules in connection with the arrangements referred to in this report.

- 4.5.4 As regards the rescheduling of LCCU's existing loan, the revised interest rate will need to be at a rate which, having regard to the credit rating of LCCU and the value of any security provided for the loan, is at least equivalent to the minimum rate of interest prescribed by the European Commission for loans to be considered to be State aid compliant.
- 4.5.5 As regards the other assistance provided and to be provided by the Council to LCCU, and in so far as such assistance is not already exempt from or allowed under the State aid rules, it is proposed to enter into an agreement with LCCU under which LCCU will undertake to provide certain services for the benefit of the inhabitants of Leeds, the terms of such agreement to be approved by the Assistant Chief Executive (Citizens and Communities). In this way, it is believed that such arrangements will then satisfy the provisions of the State aid rules as regards what are known as "Services of General Economic Interest".

## **4.6 Risk management**

- 4.6.1 In accordance with Prudential Regulation Authority (PRA) regulations, the Council's loan to the Credit Union must be by way of a subordinated loan. This means that any loan is effectively last in the queue in the event of the winding up of the Credit Union; members of the Credit Union taking precedence before repayment of any loan made by the Council. For the loan to be included in the calculation of the Credit Union's capital and therefore satisfy the PRA's 8% capital ratio requirement, the loan must meet the following conditions:
  - 4.6.1..1 The maturity of the loan must be more than five years from the date on which the loan is made;
  - 4.6.1..2 The subordination provisions provide that the claims of the subordinated creditors rank behind those of all unsubordinated creditors, including the credit union's shareholders;
  - 4.6.1..3 To the fullest extent possible, creditors waive their rights to set off amounts they owe the credit union against subordinated amounts owed by the credit union;
  - 4.6.1..4 The only events of default are non-payment of any interest or principal under the debt agreement or the winding-up of the credit union;
  - 4.6.1..5 The remedies available to the subordinated creditor in the event of default in respect of the subordinated debt are limited to petitioning for the winding-up of the credit union or proving for and claiming in the liquidation of the credit union;
  - 4.6.1..6 The subordinated debt must not become due and payable before its stated final maturity date except on an event of default;
  - 4.6.1..7 The terms of the subordinated debt must be set out in a written agreement or instrument that contains terms that provide for the above conditions;
  - 4.6.1..8 The debt must be unsecured and fully paid up.

- 4.6.2 In short, the Credit Union are precluded from providing security for any such subordinated loan and the Council effectively rank last in the order in which creditors will be paid in the event of the Credit Union being wound-up. However, the likelihood of such financial failure is now significantly lower than in 2009 when the original loan was granted. In 2009 LCCU was recovering from serious financial problems but over the last 6 years the fortunes of LCCU have improved, the business plan that was put in place has been met and LCCU is now seen as a strong, viable and sustainable organisation. The risk associated with the proposal to reschedule the loan is low compared to the risks that existed in 2009.
- 4.6.3 The Council can, by way of agreement with the Credit Union, attach conditions to the loan agreement, albeit non-compliance with such terms and conditions does not constitute default and therefore the Council could not impose those conditions.
- 4.6.4 The Financial Services Compensation Scheme (FSCS) extends to Credit Unions. As such, all members of LCCU are protected up to a maximum of £75,000 each in the event that the Credit Union is insolvent. If this risk were to materialise the PRA would freeze the Credit Union's permissions to operate and handover administration to the FSCS. The FSCS would aim to pay members out quickly in the event of insolvency.

## **5 Conclusions**

- 5.1 Leeds City Credit Union is a key partner in helping to tackle poverty in Leeds, through delivering affordable locally based financial services. Successful and sustainable partnership working with Leeds City Council has resulted in increases to both membership and loans over the past ten years, through developing innovative customer focussed products and services.
- 5.2 With the support of the Council, LCCU has ambitions grow their membership base and provide genuine alternatives to the high cost credit sector.

## **6 Recommendations**

That Executive Board;

- 6.1 Notes and welcomes the significant progress made and projects developed through the partnership between the Council and Leeds City Credit Union which has helped in the delivery of the Council's strategic objectives on financial inclusion and poverty alleviation and further welcomes the ongoing strategic approach to the partnership work.
- 6.2 Authorises the Council entering into an agreement with the Credit Union in connection with the continuing support from the Council to the Credit Union, the approval of the terms of such agreement to be delegated to the Assistant Chief Executive (Citizens and Communities).
- 6.3 Agrees to the re-scheduling of the loan to the credit union as set out in paragraph 3.38 of this report with the detailed arrangements being subject to determination by the Assistant Chief Executive (Citizens and Communities).

## 7 **Background documents**<sup>1</sup>

7.1 None

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<sup>1</sup> The background documents listed in this section are available to download from the council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

# Equality, Diversity, Cohesion and Integration Impact Assessment



As a public authority we need to ensure that all our strategies, policies, service and functions, both current and proposed have given proper consideration to equality, diversity, cohesion and integration. In all appropriate instances we will need to carry out an equality, diversity, cohesion and integration impact assessment.

This form:

- can be used to prompt discussion when carrying out your impact assessment
- should be completed either during the assessment process or following completion of the assessment
- should include a brief explanation where a section is not applicable

<b>Directorate:</b> <b>Citizens and Communities</b>	<b>Service area:</b> <b>Welfare and Benefits</b>
<b>Lead person:</b> <b>Dave Roberts</b>	<b>Contact number:</b> <b>247 4724</b>
<b>Date of the equality, diversity, cohesion and integration impact assessment:</b>	

<b>1. Title: Financial Inclusion Action Plan</b>
Is this a: <input type="checkbox"/> <b>Strategy /Policy</b> <input type="checkbox"/> <b>Service / Function</b> <input checked="" type="checkbox"/> <b>Other</b>
<b>If other, please specify</b> <b>Financial Inclusion Action Plan</b>

## 2. Members of the assessment team:

Name	Organisation	Role on assessment team e.g. service user, manager of service, specialist
Financial Inclusion Steering Group, key members include:		
Financial Inclusion Manager	Financial Inclusion Team, LCC	Manager of service
Chief Executive	Leeds Citizens Advice Bureau	Specialist
Chief Executive	Leeds City Credit Union	Specialist
Head of Public Health Partnerships	Public Health, LCC	Manager of service
Executive Officer (Advice Services)	Welfare Rights Unit, LCC	Manager of service
Chief Executive	Chapelton CAB	Specialist
Service Manager	Housing Leeds	Manager of Service
Head of Customer Contact	Customer Services, LCC	Manager of service
Project Manager	Ebor Gardens Advice Centre	Specialist
Chief Executive	Better Leeds Communities	Specialist
Centre Manager	St Vincent's Support Centre	Specialist
Director of Neighbourhoods and Communications	Connect Housing	Specialist
Customer Services Director	Leeds Federated Housing	Specialist
Community Support Manager	Yorkshire Bank	Specialist

## 3. Summary of strategy, policy, service or function that was assessed:

As a Local Authority we have responsibilities to address poverty and deprivation – which is a key priority for the Council. The activities set out in the Financial Inclusion Action Plan support the:

- Best Council Plan
- Safer and Stronger Communities Plan
- Children's and Young People's Plan
- Child Poverty Action Plan
- Leeds Joint Health and Wellbeing Strategy

All of which have a strong focus on:

- addressing debt
- maximising income and

- moving people and families out of poverty.

**4. Scope of the equality, diversity, cohesion and integration impact assessment**  
(complete - 4a. if you are assessing a strategy, policy or plan and 4b. if you are assessing a service, function or event)

**4a. Strategy, policy or plan**

(please tick the appropriate box below)

The vision and themes, objectives or outcomes	<input type="checkbox"/>
The vision and themes, objectives or outcomes and the supporting guidance	<input type="checkbox"/>
A specific section within the strategy, policy or plan	<input checked="" type="checkbox"/>
<b>Please provide detail:</b>	
The Financial Inclusion Action Plan	

**4b. Service, function, event**

please tick the appropriate box below

The whole service (including service provision and employment)	<input type="checkbox"/>
A specific part of the service (including service provision or employment or a specific section of the service)	<input type="checkbox"/>
Procuring of a service (by contract or grant)	<input type="checkbox"/>
<b>Please provide detail:</b>	

**5. Fact finding – what do we already know**

Make a note here of all information you will be using to carry out this assessment. This could include: previous consultation, involvement, research, results from perception surveys, equality monitoring and customer/ staff feedback.

(priority should be given to equality, diversity, cohesion and integration related information)

Addressing poverty and deprivation is a key priority for the Council. The Best Council Plan 2013-17 identifies key outcomes that need to be achieved if we are to achieve our best council ambition. One of the outcomes cover the need to improve the quality of life for our residents, particularly those who are vulnerable or in poverty. The Council needs to better promote and increase access to affordable credit and free debt advice . There is also a need to reduce reliance on high cost lending and support our citizens to be able to budget more effectively.

The Financial Inclusion Steering Group has investigated the national picture and also the work that has been undertaken locally by StepChange and the Citizens Advice Bureau.

Locally, partners (debt advice agencies, Credit Union, StepChange) have reported to the Council that they are seeing many more clients with debt problems associated with payday loans. In many cases clients have multiple loans with a number of payday loans.

The high cost credit market makes use of the fact that its customers lack access to other forms of mainstream credit. A quarter of the customers of high cost credit companies cannot access any other form of credit. As a result these customers have restricted choice and therefore are not able to shop around for other forms of credit that are more affordable to them and more manageable to pay back. It is estimated that 5 million people in the UK access high cost credit of which 2 million use Payday lenders.

Based on the national picture, it is estimated that up to 60,000 people in Leeds may use high interest lenders including approximately 22,500 people who may take out Payday loans. Furthermore it is estimated that (based on national data), the high cost market in Leeds could be in the region of £90m. It is forecasted that if everyone using high cost credit in Leeds had access to affordable sources this could reduce the cost of borrowing by up to £60m a year.

According to debt charity StepChange, the number of people taking out payday loans doubled from 2011 to 2012 with the average owed increasing by £390. The charity's research also showed that the average payday loan debt of clients now exceeds their monthly net income and they are increasingly getting caught in the payday loan trap. More than 30,000 people with payday loans have sought debt advice from the charity StepChange in the first six months of 2013 which is almost as many as in the whole of 2012. In 2012, 74% of those people seeking help with payday loans had a net annual income of less than £20,000.

Stepchange also reported that more than twice as many people who sought help with debts in 2012 had payday loans compared with 2011. It helped 36,413 people last year who had payday loan debts, some 20,000 more than the previous year. Worryingly, they also reported that 42% of their clients under age 25 had payday loans. This is a four fold increase in just two years.

### **Leeds City Credit Union (LCCU)**

Leeds City Credit Union is one of the largest in the UK with some 33,000 members and there are six full service branches as well as five information points. LCCU already provides a substantial amount of affordable credit in Leeds; the current loan book is £7.1m.

The credit union has an ambition to build the loan book to £20m i.e. approximately 20% of the £90m estimated total high cost lending market in Leeds. The growth phase of this plan will require investments in staff, technology and marketing. In addition to reducing the market share of the high cost lenders, the plan would also see a considerable additional saving for households and the local economy and further build the capacity of the credit union.

The following research looks at detailed research that has been undertaken in the city:

#### **2004 Research: Exclusion to Inclusion:**

The 2004 research considered two aspects of the issue. Firstly, to undertake research to establish the extent of the problem in Leeds for individuals, disadvantaged communities and Leeds as a whole. Secondly, to undertake a feasibility study to determine responses that would address the situation, and in particular consider what role could be played by the expansion of Credit Union facilities or other forms of community enterprise in addressing the problems faced by financially excluded communities.

A survey was conducted involving interviews with 410 householders and the results of this survey formed a significant base of data illustrating the extent of the problem.

The study identified the credit market in Leeds which targets disadvantaged neighbourhoods and the different communities within them and particularly focused on sub-prime moneylenders. The percentage of people with and without bank accounts was identified and also those without access to mainstream credit facilities. Difficulties which people faced in obtaining mainstream banking facilities were considered and what factors were associated with this difficulty (e.g. Security/identity checks brought about through money laundering regulations, lack of access to bank facilities, lack of skills/knowledge/access to telephone/internet banking, banking practices, religious or cultural factors).

The research also looked into the extent of debt and its impact on individuals, disadvantaged communities and the City as a whole and considered the distinction between manageable and un-manageable debt in the defined areas.

The research identified needs which came under three broad headings:

- Affordable credit
- Debt advice and
- Financial literacy

When the 2004 research was concluded the findings were reported to a half day conference attended by a significant number of partners working in the Leeds area. At this conference it was determined that a similar exercise should be undertaken five years later. This was to attempt to identify if the impact of the financial inclusion strategy (which was developed in response to research findings) was having the desired and intended effects in the neighbourhoods which were subject to the original research.

Therefore in January 2010, the same survey was conducted with 600 households in the same neighbourhoods. In addition, 300 households in less deprived neighbourhoods were surveyed focusing on homeowners to provide information about the extent of financial exclusion arising from the economic recession in recent years.

#### **Evolution of Financial Exclusion in Leeds since 2004**

A report was then compiled which compares the results from the 2004 and 2010 surveys. It

also contains an extensive discussion of the changes in financial inclusion policy and financial exclusion nationally for the same period. The findings of this report paint a somewhat bleak picture of financial exclusion in Leeds. With the important exception of access to and use of banking and transaction services, financial exclusion has grown since the last survey. This is not necessarily a reflection on the significant financial inclusion interventions implemented in the UK and in Leeds. On the contrary, a study of the economic and regeneration impact of financial inclusion activities in Leeds estimated that these interventions had a cumulative impact on the regional economy of £28 million (Dayson et al, 2009). Ultimately, as with any, the impact of financial inclusion interventions can only be ascertained through a designated study examining the effects on beneficiaries of a given number of interventions and also the costs of these interventions.

However, the findings of this study provide important lessons for financial inclusion practitioners. First, the influence of national factors on financial exclusion locally is likely to be considerable. In virtually all aspects of financial exclusion the survey data suggest that Leeds mirrored the country. Although Leeds has proven innovative and effective in its approach to financial exclusion, the influence of national policies and regulatory regime is evident in numerous aspects. The enhanced access to bank accounts in Leeds is at least in part due to the national government's push on paying benefits into bank accounts and pushing for the introduction of no-frills bank accounts. This would suggest that local authorities and other stakeholders in financial inclusion also need to be attuned to the national picture and lobby the national government for the implementation of more effective financial inclusion policies.

Second, the trends in financial exclusion are closely linked to trends in employment and other socio-economic factors. For example, access to mainstream loans is often dependant on the respondent being in employment. This suggests that combating financial exclusion is not likely to be effective if done in isolation of wider social inclusion interventions and labour market interventions. Financial inclusion interventions are important to avoid people slipping back into the cash economy as they are leaving the labour market.

Finally, financial exclusion is not only affecting traditionally financially excluded groups and areas, but also less deprived areas and households. The respondents residing in less deprived areas were in fact less likely to save and have mainstream borrowing than respondents in the deprived areas surveyed in 2004. They were also slightly more likely to have had an application for credit rejected. This would suggest that financial inclusion interventions should not only target the typically financially excluded, but also less deprived areas and households.

### **Groups most affected by financial exclusion**

A comparison of the Original and Repeat survey respondents suggest that the same groups are experiencing financial exclusion in both 2004 and 2010. In both the Original and Repeat survey, social housing tenants were far more likely to have fallen behind with bills than owner-occupiers. Owner occupiers were more likely to have savings and home contents insurance than other tenures. Overwhelmingly, workless and lone parent households were more likely to have no savings at all or less than £100. The groups least likely to have a bank account were men under 60 living alone and pensioner only households.

**Are there any gaps in equality and diversity information  
Please provide detail:**

No
<b>Action required: N/A</b>

**6. Wider involvement – have you involved groups of people who are most likely to be affected or interested**

Yes
  No

**Please provide detail:**

See details of household surveys from 2004 and 2010 above.

Partners from the Financial Inclusion Steering Group (listed above) who work with people directly affected by high cost lenders have been involved in putting together the action plan.

**Action required:**  
Continue to have regular dialogue with partners to ensure actions represent the needs of those most affected.

**7. Who may be affected by this activity?**  
please tick all relevant and significant equality characteristics, stakeholders and barriers that apply to your strategy, policy, service or function

**Equality characteristics**

<input type="checkbox"/> Age	<input type="checkbox"/> Carers	<input type="checkbox"/> Disability
<input type="checkbox"/> Gender reassignment	<input type="checkbox"/> Race	<input type="checkbox"/> Religion or Belief
<input type="checkbox"/> Sex (male or female)	<input type="checkbox"/> Sexual orientation	
<input checked="" type="checkbox"/> Other		

**(Other can include – marriage and civil partnership, pregnancy and maternity, and those areas that impact on or relate to equality: tackling poverty and improving public health)**  
**Please specify: All equality characteristics are relevant but particularly financial exclusion, tackling poverty and improving public health**

Stakeholders		
<input checked="" type="checkbox"/>	Services users	<input type="checkbox"/>
		Employees
		<input type="checkbox"/>
		Trade Unions
<input checked="" type="checkbox"/>	Partners	<input type="checkbox"/>
		Members
		<input type="checkbox"/>
		Suppliers
<input type="checkbox"/>	Other please specify	

  

Potential barriers	
<input type="checkbox"/>	Built environment
<input type="checkbox"/>	Location of premises and services
<input type="checkbox"/>	Information and communication
<input type="checkbox"/>	Customer care
<input type="checkbox"/>	Timing
<input type="checkbox"/>	Stereotypes and assumptions
<input type="checkbox"/>	Cost
<input type="checkbox"/>	Consultation and involvement
<input checked="" type="checkbox"/>	Financial exclusion
<input type="checkbox"/>	Employment and training
<input type="checkbox"/>	specific barriers to the strategy, policy, services or function

Please specify

**8. Positive and negative impact**  
 Think about what you are assessing (scope), the fact finding information, the potential positive and negative impact on equality characteristics, stakeholders and the effect of the barriers

**8a. Positive impact:**

The high cost credit market makes use of the fact that its customers lack access to other forms of mainstream credit. A quarter of the customers of high cost credit companies cannot access any other form of credit. As a result these customers have restricted choice and therefore are not able to shop around for other forms of credit that are more affordable to them and more manageable to pay back. It is estimated that 5 million people in the UK access high cost credit of which 2 million use payday lenders.

Based on the national picture, it is estimated that up to 60,000 people in Leeds may use high interest lenders including approximately 22,500 people who may take out payday loans. Furthermore it is estimated that (based on national data), the high cost market in Leeds could be in the region of £90m. It is forecasted that if everyone using high cost credit in Leeds had access to affordable sources this could reduce the cost of borrowing

by up to £60m a year.
All actions within the Financial Inclusion Action Plan will positively impact on poverty in the city. Working with partners to maximise income, tackle high cost lenders, provide access to more affordable credit and promote healthy lifestyles will help reduce instances of depression, mental and physical health issues associated with debt and poverty.
<b>Action required:</b>
Ensure that equality is considered at each stage of the Financial Inclusion Lending Action Plan – attached – and particularly when any activities take place.

<b>8b. Negative impact:</b>
There will be no negative impact resulting from LCC's direct actions, however external factors may have an impact.
<b>Action required:</b>
None

<b>9. Will this activity promote strong and positive relationships between the groups/communities identified?</b>
<input checked="" type="checkbox"/> <b>Yes</b> <input type="checkbox"/> <b>No</b>
<b>Please provide detail:</b>
Work to tackle Financial Inclusion in the city will provide access to more affordable credit and promote healthy lifestyles and will help reduce instances of depression, mental and physical health issues associated with debt and poverty. In April 2011 a report entitled 'Improving Public Health through Income Maximisation' was produced by LCC's Financial Inclusion Team. The report recommended a best practice model for commissioning money advice services. It pulls together the key evidence to support the need for advice services as an important facility to assist with improving the health of those suffering from multiple disadvantage.
<b>Action required:</b>
Continue to implement action plan

<b>10. Does this activity bring groups/communities into increased contact with each</b>
---

<b>other?</b> (e.g. in schools, neighbourhood, workplace)	
<input checked="" type="checkbox"/> <b>Yes</b>	<input type="checkbox"/> <b>No</b>
<p><b>Please provide detail:</b>A key aspect of tackling financial inclusion is the ability to provide improved access to affordable credit and free advice services. This includes better use of our One Stop Centres/ Community hubs, and locating services in the best possible locations. For example, Leeds City Credit Union has just opened an affordable loans shop 'Your Loan Shop' on Roundhay Road in Harehills.</p>	
<p><b>Action required:</b> Continued promotion and publicity of alternatives to high cost lending. Work with Corporate Communications ongoing.</p>	

<b>11. Could this activity be perceived as benefiting one group at the expense of another?</b> (e.g. where your activity/decision is aimed at adults could it have an impact on children and young people)	
<input type="checkbox"/> <b>Yes</b>	<input checked="" type="checkbox"/> <b>No</b>
<p><b>Please provide detail:</b> The actions will not benefit any particular group at the expense of another.</p>	
<p><b>Action required:</b></p>	

**12. Equality, diversity, cohesion and integration action plan**

(insert all your actions from your assessment here, set timescales, measures and identify a lead person for each action)

<b>Action</b>	<b>Timescale</b>	<b>Measure</b>	<b>Lead person</b>
Implement the financial inclusion action plan	Ongoing	Measure achieved and completed	Dave Roberts
Continue to have regular dialogue with partners to ensure actions represent the needs of those most affected.	Ongoing	Revision of the action plan as necessary	Dave Roberts
Ensure that equality is considered at each stage of the financial inclusion action plan and particularly when any activities take place.	Ongoing		Dave Roberts
Continued promotion and publicity of alternatives to high cost lending. Work with Corporate Communications ongoing	Ongoing	Meetings with partners as necessary	Dave Roberts

### 13. Governance, ownership and approval

State here who has approved the actions and outcomes from the equality, diversity, cohesion and integration impact assessment

Name	Job Title	Date
Dave Roberts	Financial Inclusion Manager	07.10.2014

### 14. Monitoring progress for equality, diversity, cohesion and integration actions (please tick)

- As part of Service Planning performance monitoring
- As part of Project monitoring
- Update report will be agreed and provided to the appropriate board  
Please specify which board
- Other (please specify)

### 15. Publishing

Though **all** key decisions are required to give due regard to equality the council **only** publishes those related to **Executive Board, Full Council, Key Delegated Decisions** or a **Significant Operational Decision**.

A copy of this equality impact assessment should be attached as an appendix to the decision making report:

- Governance Services will publish those relating to Executive Board and Full Council.
- The appropriate directorate will publish those relating to Delegated Decisions and Significant Operational Decisions.
- A copy of all other equality impact assessments that are not to be published should be sent to [equalityteam@leeds.gov.uk](mailto:equalityteam@leeds.gov.uk) for record.

Complete the appropriate section below with the date the report and attached assessment was sent:

For Executive Board or Full Council – sent to <b>Governance Services</b>	Date sent: 1 October 2015
For Delegated Decisions or Significant Operational Decisions – sent to appropriate <b>Directorate</b>	Date sent:
All other decisions – sent to <a href="mailto:equalityteam@leeds.gov.uk">equalityteam@leeds.gov.uk</a>	Date sent: