

Loans to Leeds Credit Union

Date: 2nd May 2024

Report of: Chief Officer Community Hubs, Welfare and Business Support

Report to: Chief Officer Financial Services

Will the decision be open for call in? Yes No

Does the report contain confidential or exempt information? Yes No

Brief summary

This report seeks approval from loans totalling £500,000 to be provided by Leeds City Council (LCC) to Leeds Credit Union (LCU).

LCU has been a partner of LCC for many years in addressing poverty, inequality, and financial inclusion. LCU provides valuable financial services to people who live and work in the city. Much of the credit unions work is focussed on ensuring people on all incomes can fairly access financial services in the city.

It is recommended that two subordinated loans of £250,000 each are provided to LCU over a 10 year period. The first subordinated loan will be for LCU to use to strengthen their loan book and continue to expand lending to members. The second subordinated loan of £250k would be a capital loan to provide funding for LCU to relocate their city centre branch from Kirkgate to the Councils City Centre Community Hub at Merrion House. Creating a larger branch and back-office arrangement within the public space.

Recommendations

The Chief Officer Financial Services is recommended to approve that;

- a) Leeds City Council will provide Leeds Credit Union with two subordinated loans to a maximum of £250,000 each which are repayable in 10 years and would be subject to the measures set out within this report.
- b) Interest only is charged for the first 5 years and 1 day for each loan, with an agreed repayment schedule starting after this point based on an Equal Instalment of Principal for the remainder of the term until full repayment has been made.

What is this report about?

1 This report sets out the proposal for Leeds City Council (LCC) to provide subordinated loans totalling £500,000 to Leeds Credit Union (LCU). This will enable LCU to continue to increase lending to their members and to relocate their city centre branch to the City Centre Hub based at Merrion House.

2 Background

3 LCU has been a key partner of LCC for many years, both in terms working to help address poverty and inequality in the city through its services and targeted projects, and in providing Council employees with payroll savings and wider services.

4 LCU has its origins as a City Council credit union, have started by opening to membership for all City Council employees and their families in 1987. Since that time, through changes to the common bond (the basis on which individuals are eligible for membership) and mergers with other community-based credit unions, LCU has grown to become one of the largest “live and work” city-based credit union in the UK with around 37,000 members. Anyone who lives or works in Leeds, Wakefield, Harrogate, Craven or Barking and Dagenham, residents of certain housing associations or who works for one of their partnered employers is applicable to join the credit union.

5 LCU provide a range of savings, budgeting accounts and loans to its members, along with specialist services such as managed Care Accounts and welcome payments for Ukrainian refugees. Through their branch network they currently provide cash payments to members of circa £14m per annum. Over the last year LCU has provided affordable loans of £6m to Leeds residents.

6 Current Funding to LCU

7 LCC has financially supported LCU over the years. This includes funding for branches within the Councils Community Hubs and Libraries, support for Housing Leeds tenants via the Money and Budgeting Service, and project work such as processing welcome payments for Ukrainian refugees.

8 In addition, in April 2009 the Council provided LCU with a loan of £2m, to stabilise the organisations financial position. This loan was originally due to be repaid in April 2019 but was rescheduled in April 2016 and became repayable in April 2025.

9 The arrangement agreed in 2019 was put in place for LCU to maintain the correct levels of capital reserves and abide by State Aid regulations. The finance forms part of LCU’s capital reserves which LCU must maintain at a level of 5% capital requirement for the first £10m of total assets, then above £10m and below £50m the capital requirement is 8%. Currently LCUs weighted calculation is circa 6.8%, as they have assets of £22m. Capital requirement is total assets which includes loan book, savings, and property assets. This is a stipulation by the Prudential Regulation Authority (PRA) which has the responsibility for regulating credit unions and ensuring that they are operating in a viable way.

10 More recent guidance from the PRA has clarified that loans can only be counted in full toward capital requirements when they are over 5 years and 1 day from the repayment date. For each year under the 5 years and 1 day 20% of the loan is discounted (80% year 1, 60% year 2, 40% year 3, 20% year 4 and nothing in the final year). The current loan between LCU and LCC is due to expire in April 2025 therefore LCU from April 2024 are unable to count any of the loan towards the capital ratio which means without further capital they will be unable to meet PRA regulations. Without further injections of capital LCU would be forced to curtail lending and cut costs, which effectively sets LCU on a downward spiral reducing the size, scale, and impact of the credit union.

11 New Subordinated Loans

12 LCU have set out their purpose, vision and strategy for growth as follows;

Purpose: Help more people build a good life by supporting the financial wellbeing and independence of all.

Vision: To be the best provider of inclusive financial services in the areas that we serve

Strategy: Grow and develop our services and capability so that we can meet the needs of our membership and communities for many years.

13 To help achieve these ambitions LCU are requesting two loans of £250k, both over a 10-year period, with interest only payments for the first 5 years and 1 day.

14 The first £250k loan would be for LCU to use to strengthen their loan book and continue to expand lending to members.

15 The second loan of £250k would be a capital loan to provide funding for LCU to relocate their city centre branch from Kirkgate to the Councils City Centre Community Hub at Merrion House. Creating a larger branch and back-office arrangement within the public space.

16 LCU have provided their audited balance sheets for the last year and projected balance sheets for the next 5 years, which assumes if the requested new loans are received their accounts will return to a surplus in the latter half of 2026 and maintain that going forward. This will enable repayment of the loans from within their own resources and fully repay by the end of the loan periods.

What impact will this proposal have?

17 The current subordinated loan between LCC and LCU is due to end in April 2025 and therefore as a result from April 2024 the current loan cannot be counted towards the credit unions capital ratio, this means that LCU will not be compliant with PRA regulations.

18 The implications of this are that the PRA will require LCU to reduce and potentially stop lending and cut costs. This will impact LCU members directly, many of whom are unable to secure affordable loans from mainstream lenders, 25% of LCU loans are currently made to low income/financially excluded households. LCU also offers payroll services to LCC employees and have lent over £1m to around 500 employees over the last year. Finally, failure to meet the PRA regulations will impact on LCU's business plan and forecasted performance. For this reason, there is an urgency to provide £250k loan for LCU to use to continue lending. However, it should be noted that LCU is on a much sounder financial footing than in 2009 when the original £2m loan was agreed.

19 If the loan for the relocation of their city centre branch is not agreed, this will mean that they will continue to operate from the current Kirkgate premises with these costs having an impact on their projected profit and loss, and ultimately mean slower business growth. Relocation of all city centre branch services to Merrion House will result in costs being reduced.

20 Having one central city centre location will also help to improve the customer journey. The larger branch within the City Centre Hub at Merrion will allow LCU customers to access the Council Services on offer within this hub.

How does this proposal impact the three pillars of the Best City Ambition?

Health and Wellbeing

Inclusive Growth

Zero Carbon

21 The central mission of the Best City Ambition is to tackle poverty and inequality and improve quality of life for everyone who calls Leeds home. LCU has been key partner of LCC in addressing poverty, inequality and financial inclusion, the provision of these loans will enable the credit union to continue to expand their services to communities across Leeds, and serve

households who may otherwise turn to high cost financial services. This has clear links with both the Health and Wellbeing and Inclusive Growth pillars of the Best City Ambition.

What consultation and engagement has taken place?

Wards affected:

Have ward members been consulted? Yes No

22 Consultation on this proposal has been undertaken with the relevant Council Officers within Finance, Legal and Financial Inclusion. All relevant Executive Members have also been briefed on these proposals.

What are the resource implications?

23 It is proposed that two separate subordinated loans of £250,000 will be paid to LCU.

24 The first loan will be from the Councils Revenue account. The term of the loan will be over 10 years, with interest only payments for the first 5 years and one day, after this point an Equal Instalment Principle will be applied to the repayment of the loan, starting 6 months following the final interest only payment.

25 Interest rate will be calculated in adherence with the relevant State Subsidy rules and as a minimum will be higher than the 10-year Public Works Loan Board (PWLB) maturity loan rates at the date of the agreement.

26 The second subordinated loan will be a capital loan and will adhere to the same terms of first loan.

27 Both loans will be fully repaid at the end of the agreed terms.

What are the key risks and how are they being managed?

28 The key risk as outlined within this report is that to meet the PRA capital requirements and without further injections of capital LCU would be forced to curtail lending and cut costs, which effectively sets LCU on a downward spiral reducing the size, scale, and impact of the credit union.

29 LCU has provided LCC with forecasted audited accounts for the next 10 years which demonstrates its ability to fully repay the loans over the length of the loan arrangements.

30 LCC already holds quarterly review meetings with LCU, these will continue and any issues relating to these loans will be discussed.

31 In terms of the second capital loan, the payment of this will be delayed until final costings for the relocation and refurbishment of the city centre branch at Merrion House is known.

What are the legal implications?

32 Section 1 of the Localism Act 2011 (the general powers of competence) gives the Council the power to provide the loan outlined in this report and to enter into the necessary loan agreement with LCU.

33 Legal agreements will be drawn up for both loans setting out the terms and conditions of the loans which must be adhered to.

34 The rate of interest will be calculated by applying the formula in The Subsidy Control (Gross Cash Amount and Gross Cash Equivalent) Regulations 2022 and consequently the loan will not be considered to amount to a subsidy for the purposes of the Subsidy Control Act 2022.

Options, timescales and measuring success

What other options were considered?

- 35 Option one would be to not provide this loan, however this was rejected give the consequences outlined in this report for LCU and its members.
- 36 Option two would be to provide non recoverable grants to LCU, however given the Councils financial pressures there were no identifiable grants that this funding could come from.
- 37 Option three is to provide loans as outline in this report.

How will success be measured?

- 38 Provision of subordinated loans to LCU, with full repayment at the end of the terms.
- 39 LCU meeting their forecasted financial plan over the next 10 years, increasing their loan book, offering more accessible services to the people of Leeds, and relocating their city centre branch within Merrion House.

What is the timetable and who will be responsible for implementation?

- 40 The first subordinated loan to be provided within the first quarter of 2024/25.
- 41 The second subordinated loan to be provided once final costings are available for the relocation of the city centre branch and a timescale for refurbishment is known.

Appendices

- None

Background papers

- None