



Report of the Deputy Chief Executive

Executive Board

Date: 21 July 2010

Subject: Financial Support to Leeds City Credit Union

Electoral Wards Affected:

Ward Members consulted
(referred to in report)

Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

Eligible for Call In

Not Eligible for Call In

(Details contained in the report)

Executive Summary

Leeds City Credit Union (LCCU) provides valuable financial inclusion services particularly to people who do not have access to mainstream bank accounts and may otherwise resort to the use of loan sharks. The Council has worked closely with LCCU in respect of the financial difficulties it has faced with the emphasis more recently being on the sustainability of their branch network which originally included 10 branches. In March / April of this year, a report which detailed the current challenges faced by LCCU was considered by relevant Area Committees.

This report requests Executive board to note the financial support being provided for the LCCU branch network and also requests approval to utilise Yorkshire Forward financial inclusion funding for more general support to the credit union.

1.0 Background Information

1.1 LCCU assist the delivery of the financial inclusion agenda in Leeds by providing key services e.g. access to cash and to affordable credit to those people who do not have access to mainstream bank accounts. In addition LCCU also promote the value of saving and help people who are in debt to budget and ensure that essential bills are paid. Independent research has shown that credit union activity has a multiplier effect in that £1 invested in credit union services produces a £9 benefit to the wider community. These services are in greater demand in times of economic uncertainty and recession.

1.2 In relation to the above LCCU has until very recently operated 10 public facing branches in Leeds as follows:

7 based in Council One Stop Centres, being:

2 Great George Street

Dewsbury Road

Armley

Halton Moor

Wetherby

South Seacroft

Morley

The other 3 branches were situated at Kirkgate, Roundhay road (non cash) and Belle Isle (BITMO). The Roundhay road branch was closed earlier in the year.

1.3 Two new joint service centres, (JSC's) will become operational this year in Harehills (opened 12th July 2010) and Chapeltown (October 2010). Both of these joint service centres were originally designed to include a fully operating cash office for LCCU. In view of the major uncertainty raised by the Credit Union's financial position, the design was amended to provide more flexible space for credit union enquiries rather than a cash facility. This service is to be delivered through the Councils customer services teams.

1.4 Whilst the financial position of the LCCU has been made public, perhaps less well publicised and understood are the benefits to the City that it provides in relation to promoting financial inclusion through local access to cash and the availability of affordable credit to a range of people and particularly those who do not have mainstream bank accounts.

1.5 During March / April of this year a report was presented to those area committees who have a LCCU branch located within their area, (or where a new JSC will be located) to make them aware of the services provided by LCCU and also of the severity of the financial problems being faced by them. Area Committees were given the opportunity to consider whether they felt it appropriate to provide some financial support from their well being budget.

1.6 This report provides an update on relevant issues and recommends the use of regional financial inclusion funding to provide more general support to LCCU.

2.0 Main Issues

2.1 Leeds City Council's Financial Inclusion Strategy has gained a national reputation for the work undertaken in the city. Financial Inclusion initiatives in Leeds have been delivered through an integrated and holistic network consisting of advice agencies, the Council and the LCCU. The advice agencies provide comprehensive and detailed casework support to citizens who find themselves with serious debt problems. The majority of residents who receive this form of support have successful outcomes i.e. an agreed approach to resolving their debt position. If locally provided affordable credit is not available there is a high likelihood that such residents will find themselves back in difficulties within a few years of receiving their debt casework support. The work of the credit union is thus seen as fundamental to supporting the work of other agencies and Council services.

- 2.2 Following in a review of their financial position in late 2009, LCCU revised their recovery plan to include closure of some or all of their branch network, in the absence of other funding being made available. LCCU have approached the Council and various other organisations with a view to securing this additional funding.
- 2.3 The Council has provided a range of support to LCCU for sometime including a £2m loan and an internal audit service provided at nil cost. In relation to the branch network it was agreed to provide temporary financial support to continue operation of the branch network for a 3 month period from January to March 2010. In the absence of a longer term solution, further temporary support was subsequently agreed to cover the period April to June 2010.
- 2.4 This second 3 month period of support has enabled officers from the Council and LCCU to explore some key issues including:
- Consultation with appropriate area committees in relation to options for supporting branches or other credit union activities in their areas
 - Reviewing the feasibility of a single city centre site
 - Establishing a clearer understanding of the impact on the credit unions core business of the closure of branches.
 - Exploring opportunities for closer working with mainstream banks, including the councils own banker (this has been tried previously but with limited results)
 - Assisting LCCU to modernise its cash handling arrangements and reducing its susceptibility to bad debts
 - Ensuring as far as possible that the Councils current investment in LCCU, and particularly the loan funding, is protected.
- 2.5 Officers, together with LCCU Managers, attended seven area committee meetings during March and April of this year to present a report on the credit union branch network. Financial support totalling £40k was subsequently approved by Area Committees to support the current branch network.

3.0 Maintaining the branch network :

- 3.1 The cost of providing a 7 branch network for the period 1st July to 31 March is £274K. A funding package has been brought together which is summarised below:

	<u>£K</u>
Area committee contribution	40
ALMO contribution	42.5
Earmarked rate relief	34
Contribution from HRA	46.5
Balance to be borne by LCCU	<u>111</u>
Total	<u>274</u>

- 3.2 The above funding package will ensure a 7 branch cash network up until the 31 March 2011. Whilst this in the short term, gives some degree of continuity there is still a need to resolve the longer term position in relation to the optimum branch network and the funding required to support it.
- 3.3 ALMO's have requested research to be undertaken which will evaluate the financial benefit of credit union services including a branch network to their operations. This

project has commenced and is being undertaken jointly by staff from the ALMO's, LCCU and City Development Economic Policy Team. Without pre-empting the outcome of this study, the ALMO's have agreed to provide funding due to a belief that their tenants ability to service their rent accounts is assisted significantly by the provision of affordable credit (in addition to other financial inclusion services such as debt and welfare benefits advice). The original financial inclusion study undertaken in 2004 identified that social housing tenants were far more likely to suffer from financial exclusion than households with other tenure. One of Leeds ALMO's has seen arrears reduce significantly in an area where a credit union branch is located. This is seen to be a combination of the existence of the credit union facility coupled with a pro active approach by the local estate office to utilise this facility for the benefits of its tenants.

- 3.4 Whilst this report is able to demonstrate that progress has been made in determining a sustainable financial support model for the rest of this financial year, there is no funding committed for the branch network post 31 March 2011. Further work will take place in relation to the recommended branch network for the City in future years and how this will be supported. The latter will need to address the possibility of LCCU operating one city centre branch only. A report will be produced in the coming months on this subject which can inform the Council budget setting process for 2011/12 and which links financial support for the branch network to the achievement of strategic plan objectives.

4.0 Other Developments

- 4.1 **LCCU financial position** - Yorkshire Forward have agreed to provide £1m of financial inclusion funding to the Council. It is intended to use such monies to reduce the £2m Council loan commitment to LCCU by £900 k to £1.1m. The balance has been used to support the branch network. Reducing the loan amount reduces the risk to the Council and helps the credit union as interest would then be payable on the balance rather than the full £2m. The full impact of reduced loan repayments will not take effect until the 2011/12 financial year. LCCU have confirmed to the Council that their audit and finance committee has undertaken a risk assessment of their ability to repay the debt to LCC on the due dates. This risk assessment concludes that whilst there are uncertainties their forecasts indicate that the loan will be repaid on the due dates.
- 4.2 **The AGM of LCCU** took place on the 21st April. LCCU have come to the decision that they have passed the "going concern" test, and this view has subsequently been confirmed by their Auditors, Grant Thornton. Although this represents an important accounting hurdle that LCCU has overcome its financial models remain very tight with no contingency and, through a waiver of the normal rules, the credit union will continue to operate below the FSA's normal capital ratio requirements for some time. As there is little margin for error in LCCU's plan, a positive way forward on the branch network will reduce LCCU's exposure to risk and improve the opportunity for the credit union to become stronger sooner. It should be noted that the Council has a seat on LCCU's audit & finance committee and this has enabled the Council to have access to detailed financial information and thus clarity about the ongoing financial position of LCCU
- 4.3 **Branch Network** – As indicated above , the Directors of LCCU have now confirmed that the credit union will attempt to carry the cost of one of the City centre sites from July onwards with the view that this should be the branch at Kirkgate as this location has the most customer service capacity. The North East Leeds branch situated on Roundhay Road which did not offer any cash handling facility has now

been closed. The credit union has also confirmed an intention to close their branch facilities at Morley & Wetherby (where an alternative enquiry facility will be available as described below) .

- 4.4 **Customer Services** –Work has been undertaken in respect of an extended role in Council One Stop Centres for the Council’s customer services teams in relation to resolving credit union enquiries. This work includes provision of an initial advice / enquiry service in the new joint service centres in Chapeltown & Harehills . The potential for extending this service across the Councils One Stop Network will be explored over the next 12 months , and particularly where cash facilities operated by LCCU are withdrawn.
- 4.5 **Financial Sector support** - Meetings have been held with Nat West (the Councils banker), Cooperative Bank (LCCU’s banker) and other financial organisations. Whilst being supportive, none have been able to offer any funding or have been interested in operating the branches themselves.
- 4.6 **Future vision** - LCCU have recently re-stated their future vision for the credit union including their views on the optimum branch network which supports their business. LCCU’s view is that for a city based ‘community’ credit union, it would be more proportional for LCCU to have about half a dozen branches, one being in the City centre, rather than the 10 that existed formally. With such scale LCCU will be able to offer a better customer service in a smaller number of sites whereas resources are too stretched to service the current level of branches. Although in its current financial position LCCU can only support from its own resources one city centre location the aspiration of a smaller number of core sites should give the basis for better planning for the Council’s contribution to the provision of credit union services and an aspiration for LCCU to contribute to the cost of community locations as it’s financial situation improves. A core of key branches can then be supplemented by smaller satellite information points run by the community or volunteers including access to credit union services via the Councils Customer Service staff discussed elsewhere in this paper.
- 4.7 **Legislative/Policy issues - Credit Union Legislation** - It is expected that Credit Union Legislation will be improved via a legislative Reform Order due to be passed on the 1st August 2010. Amongst other changes this will enable credit unions to take savings form corporate bodies, e.g. social clubs, and to provide enterprise loans. Whilst Leeds City Credit Union is unable to predict at this stage how the new powers will improve its financial position is nevertheless hoped that the new credit union legislation will help LCCU over time as well as enabling it to provide additional services to the community.
- 4.8 **The Child Poverty Act** came into force in March this year and places specific targets upon Local Authorities to reduce child poverty within their areas. The previous Government established a Child Poverty Unit which laid down four key “Building Blocks” which are seen as essential to achieving the objectives of the Act. One of the building blocks is Financial Support which seeks to improve financial and material support for families in a way that is responsive to families’ situations. It is suggested that maintaining a branch network could prove to be a valuable asset in helping the Council to achieve some of its obligations under the Child Poverty Act.
- 4.9 **Banking and the Post Office** – The previous Government made 2 policy announcements which if implemented, will have a longer term impact on the

financial inclusion agenda. Firstly, the previous Chancellor in his budget speech in March indicated an intention to introduce a legislative requirement for banks to make available basic bank accounts to the whole of the population. The view of Credit Unions' is that even with such legislation this objective may be difficult to deliver.

- 4.10 Secondly, the Department for Business, Innovation and Skills set out its plans for an expansion of financial services through the Post Office's 11,500 branches to tackle financial exclusion and 'bring banking services back to the heart of people's communities'. The plans include an intention to help the Post Office to provide access to credit union services, to make affordable credit available to people who would otherwise have to rely on very high cost credit lenders. LCCU is positive about exploring how it can work with Post Offices in Leeds should these plans develop further.
- 4.11 **New study on the Impact of the Recession on Financial Exclusion** – a recent study, as yet unpublished, undertaken for the Council by Salford University, gives some pointers to the impact of the recession on families and the extent of financial exclusion. Although the results of this work are only draft at this stage they do nevertheless give some indications of the issues. The study compared the research findings from the Leeds study undertaken in 2004 with a comparative survey done in early 2010. Some areas which were not as deprived as the 2004 sample were studied in the 2010 work also. The survey has identified issues of concern in relation to the extent of redundancy experienced in households, reduction in mainstream borrowing and refusal of credit, indebtedness and reduction in propensity to save. Of particular interest is the finding that Financial exclusion is now also affecting less deprived areas and households. As has been stated earlier this report, LCCU provide a valuable service to those people who do not have access to mainstream bank accounts, who are experiencing debt related problems and may otherwise approach loan sharks for credit. The existence of the branch network also provides easy access to cash for LCCU members. On an annual basis around 295,000 visits are made to the LCCU branches and experience shows that these services are in even greater demand during times of recession and economic uncertainty.

5.0 Implications for Council policy and Governance

- 5.1 The financial and other support for the LCCU as described in this report is consistent with the financial inclusion objectives as detailed in the Councils strategic plan

6.0 Legal And Resource Implications

- 6.1 This report describes agreed and proposed financial support for LCCU together with the associated funding sources.

7.0 Conclusions

- 7.1 This report has provided an update in relation to the LCCU branch network, and in particular funding which has been identified to support a reduced 7 branch cash network for the rest of the financial year.
- 7.2 The report also identifies that both the board of LCCU and their auditors are satisfied that it is a "going concern". LCCU have undertaken a risk assessment of their ability to repay the Councils loan at the due dates and have indicated that this will happen. In relation to the Councils loan to LCCU, the report recommends that

£900k of Yorkshire forward financial inclusion funding is utilised to reduce the amount from £2m to £1.1M. This will assist LCCU by way of reduced loan repayments from the next financial year.

- 7.3 The continuation of a branch network of the size recommended for the rest of this financial year will provide positive benefits for more vulnerable citizens of Leeds by facilitating easier access to cash and credit, avoidance of loan sharks and availability of debt advice.
- 7.4 The services provided by LCCU which the Council are supporting are those which directly contribute to the achievement of strategic plan objectives in relation to financial inclusion. In addition LCCU would argue that their services can also be seen to contribute to more broader activities around Housing and the alleviation of Child Poverty
- 7.5 In relation to the branch network, this report has confirmed funding for the current financial year only. A further report is needed to consider the branch network requirements post March 2011 and how this might be funded , taking into account both LCCU' s future vision and the Councils financial inclusion objectives.

8.0 Recommendations

Members of Executive Board are asked to :

1. Note the continued support being provided by officers of the Council to the credit union
2. Note the further information supplied in relation to LCCU and the promotion of financial inclusion.
3. Note the intention for LCCU to maintain a 7 branch cash network for the rest of the year and the financial support package which has been developed for this purpose. The 6 branches being supported by the Council are :

2 Great George Street
Dewsbury Road
Armley
Halton Moor
South Seacroft
Belle Isle

LCCU will be funding the 7th cash branch being Kirkgate.

4. Approve the use of Yorkshire Forward financial inclusion funding to reduce the £2m Council loan commitment to LCCU by £900 k to £1.1m.
5. Note the intention to undertake further work which will consider the branch network requirements post March 2011 (including potential funding) , taking into account both LCCU' s future vision and the Councils financial inclusion objectives.

Background Papers:

1. None