

**CABINET
11 JANUARY 2022**

SUPPORT DARLINGTON CREDIT UNION

**Responsible Cabinet Member -
Councillor Dulston – Deputy Leader and Stronger Communities Portfolio**

Responsible Director - Ian Williams, Chief Executive

SUMMARY REPORT

Purpose of the Report

1. To provide Members with details of a proposal to support Darlington Credit Union (DCU) as part of its investment and growth plan but also in light of the financial impact the union has sustained through the pandemic.
2. To seek Cabinet approval to allocate £25,000 as one-off grant funding to Darlington Credit Union, from the ARG covid grant and a £75,000 interest-free loan to be repaid over a 10-year period.

Summary

3. DCU provides a broad range of affordable, sustainable and ethical financial services to its members and encourages the development of good financial practice across the community. Since its formation in 2009 DCU has made an important contribution to the Town with over 8,000 members, providing support to around 1,200 people per year with the MoneySmart project, which offers financial literacy education and holistic support to those who are financially vulnerable; and helps children start off life in the habit of saving, with over 1,300 pupils in 13 schools having saved over £180,000. Their mission is to fight financial exclusion.
4. The Council has, since its foundation, supported the Darlington Credit Union (DCU). Over the years the Council has provided £65,000 in grants and holds £85,000 in deferred shares which in turn have allowed DCU to offer interest-bearing accounts and affordable loans, which reduce the risk of residents using loan sharks; supporting the strategy to address financial hardship and the dangerous consequences for families of resorting to unregulated and so-called “pay-day” lenders. The funding has also enabled DCU to strengthen capital balances to allow the business to expand.
5. DCU are seeking funding to enable growth but also to assist with the financial challenge the pandemic has presented.
6. After a period of investing in organisational capacity and capability DCU are looking to secure funding to aid the next stage of their sustainability and growth to enable more people to be supported and to leverage further investment.

7. Alongside this the Covid-19 pandemic has had a profound effect on businesses throughout the economy and the DCU is not an exception and has seen reduced income with demand for loans at an all time low, and conversely an increase in bad debts with some members who had never missed a payment finding themselves unable to meet their financial commitments.
8. DCU have taken a number of actions to improve the financial position and as part of this plan have looked for third party support. As part of that action they are seeking £150k in funding to stabilise their financial standing but also to ensure it is in a strong position to expand and increase income along with the business plan. Darlington Building Society have been approached and have agreed to provide funding of £50k, and £100k has been requested from the Council.
9. The Building Society and the Council have reviewed the 2022 and 2023 financial forecasts which show a positive return and are satisfied the credit union has plans and action in place to achieve the estimated returns.
10. The proposal to provide one-off grant funding of £25,000 to the Credit Union from the Additional Restrictions Grant (ARG), government funding passported to businesses suffering the effect of Covid which the council has discretion to allocate, and in addition it is proposed to offer an interest-free loan of £75k repayable over 10 years.

Recommendations

11. It is recommended that Cabinet;
 - (a) Approve one-off funding of £25,000 from the ARG grant fund.
 - (b) Approve a £75,000 interest-free loan repayable over 10 years to support the sustainability and growth of the Credit Union.
 - (c) Delegate to the Group Director of Operations, the authority to draw up a funding agreement for the loan.

Reasons

12. The recommendations are supported by the following reasons;
 - (a) Using the credit union enables individuals to receive advice and support about saving and appropriate lending as well as helping them to avoid reaching crisis through high cost lending it also helps them to meet other commitments including payment of council tax and housing rent.
 - (b) ARG funding was designed to assist organisations which have been impacted by the Covid-19 pandemic.

Ian Williams
Chief Executive

Background Papers

No background papers were used in the preparation of this report.

Elizabeth Davison - Extension 4083

S17 Crime and Disorder	Enhanced support, promotion and development of the Credit Union's offer and existing low cost loan scheme will reduce the risk of illegal money lending activity to and also reduce the risk of criminal activity to pay off large interest payments on high interest loans.
Health and Well Being	Financial exclusion can impact adversely on the health and well-being of individuals and families. It can also impact on the ability of individuals to maintain housing tenancies.
Carbon Impact and Climate Change	There are no carbon impact and climate change implications.
Diversity	This proposal is open to all who require low cost financial support to purchase items such as household white goods and electrical items, although the scheme will primarily appeal to people who are financially excluded and/or on a low income.
Wards Affected	All Wards within Darlington have the potential to be positively impacted through enhancement of the existing loan scheme proposal
Groups Affected	Financial exclusion is an issue that affects all age groups.
Budget and Policy Framework	This decision does not represent a change to the budget and policy framework.
Key Decision	This is not a key decision
Urgent Decision	This is not an urgent decision
Council Plan	The development and promotion of an affordable low cost loan scheme is specifically designed to narrow the gap between those with poor credit ratings and others. Increasing the financial knowledge and competencies of individuals can increase the overall prosperity of Darlington, making it more commercially sustainable.
Efficiency	This proposal will promote financial inclusion and ensure residents of Darlington will be able to access low cost credit.
Impact on Looked After Children and Care Leavers	This report has no impact on Looked After Children or Care Leavers.

MAIN REPORT

Information and Analysis

Background

13. The Darlington Credit Union has become a part of the social infrastructure in Darlington with cross-referrals from over 50 local agencies, including council services. It is a significant and responsible lender of particular value to residents on low incomes. Most loans for example help residents to meet the additional costs of Christmas or unforeseen household repairs and without which those residents may rely on the non-standard consumer credit market including doorstep lenders, payday loan companies, pawn broking and high interest 'pay-weekly' consumer credit through High Street stores such as Bright House. Corporate investors, like the Council and other businesses, help to strengthen the capital reserves that enable more loans to be made to those in need.
14. DCU provides a broad range of affordable, sustainable and ethical financial services to its members and encourages the development of good financial practice across the community. It was set up in 2009 to offer savings and affordable loan facilities to its members, who live and/or work within Darlington and the surrounding areas, and provides a responsible and low cost alternative to the non-standard consumer credit market.
15. They provide eligible members with an affordable and low cost loan, even if they have no credit history. They provide a vital service to those with low household incomes and who may be financially excluded and therefore not able to access some of the lower cost mainstream credit channels and be vulnerable to door step lenders and even illegal money lenders.
16. The DCU plays an important part in reducing financial exclusion in Darlington and directly help with council services such as council tax and housing as they support residents with council tax and rent payments, but also indirectly in areas such as the mental health support team - a recent quote from a team member being:

"The project (MoneySmart) is essential and moves clients who are often in a state of chaos to improved behaviour, wellbeing, reduced stress and we have been able to move people on or sometimes discharge them from the service provided by our team'.
17. The Council has previously supported DCU with one off grants and holds £85,000 deferred shares in the union.

Information

18. Prior to the pandemic the Credit Union was expanding as demand had never been greater with loans and deposits increasing. The Credit Union has invested in ICT infrastructure enabling online banking and a mobile app which has increased membership and access. The Credit Union have strong ambitions to continue this growth to enable more people to be supported.

19. As a credit union grows so does the capital asset ratio requirement it needs to sustain. The Financial Conduct Authority regulations which have tight stipulations in regard to reserve levels verses capital require a minimum ratio of 3% and for a Credit Union of Darlington size it should be at 5%. DCU's current ratio is 3.48%, and therefore it requires support to ensure longer-term viability.
20. As a not for profit organisation, credit unions, especially relatively new ones such as DCU, find it difficult to grow their reserves organically fast enough to meet these higher levels due to the low 'profits' they make on loans. Invariably, credit unions nearing a trigger point for the implementation of the next capital/asset ratio banding, are faced with either attracting external investment or halting growth.
21. DCU had laid the foundations for future growth through significant extension of products and services to allow to access new markets, however the pandemic stalled this progress with a financial impact both in regard to revenue generation and an increase in bad debts.
22. In regard to revenue, members witnessed a reduction in their outgoings especially on the social, hobbies and interests front which created more disposable income and allowed many to either reduce their indebtedness or extinguish it completely. Demand for loans was at an all time low with the usual reasons for borrowing no longer available e.g. holidays.
23. Conversely a number of benefit/low income members found their cost of living rising, through the pandemic, as many of the essential spends increased. Members who had never missed payments, previously, suddenly found themselves unable to meet their financial commitments. Furloughing and job losses also contributed. The net result of the was pressure on the Capital/Asset ratio, a key financial indicator for DCU.
24. The credit union has taken steps to deal with this situation including:
 - (a) Reducing staff and overheads to limit management expenses;
 - (b) Extension of a subordinate loan by two years to improve reserves;
 - (c) Securing external grant funding over the next five years;
 - (d) Loan campaigns focusing on reduced repayment periods and lower amounts which will be more recoverable;
 - (e) Seek third party funding supported.
25. As part of seeking third party support the Credit Union have approached Darlington Building Society and the Council for financial support. Darlington Building Society have agreed a funding package of £50k.
26. The proposal is for the Council to provide a £25k grant and a £75k interest-free loan repayable over ten years which would stabilise the capital ratio and allow room for expansion.

27. Any investment secured would be applied to their reserves to provide them with security over the longer term by maintaining the Capital/Asset ratio above the minimum requirements. This would provide them with the confidence to invest in growth but also provide a level of organisational resilience to survive challenging years that may from time to time occur.
28. The Council will meet with DCU every six months to review progress.

Financial Implications

29. The £25k grant would come from the Covid Additional Restrictions funding which was specifically allocated for businesses struggling through the pandemic and would therefore have no direct impact on the Council's reserve levels.
30. In addition the £75k loan repayable over 10 years, whilst interest-free, will have limited financial impact on Council finances given the very low interest rates receiveable on investments.
31. The precise details of the loan arrangement will be agreed with the Credit Union and will be designed as far as possible to protect the Council's investment.

Legal Issues

32. Given the value of the loan it is unlikely that there will be any state aid/subsidy control implications. Officers will need to ensure that the Credit Union have disclosed all monies received from public bodies in the past 3 years to ensure that the grant and loan are state aid/subsidy control compliant.