
FUTURES FUND: NEIGHBOURHOOD RENEWAL

Responsible Cabinet Member - Councillor Bill Dixon, Leader

Responsible Director – Paul Wildsmith, Managing Director

SUMMARY REPORT

Purpose of the Report

1. To seek the agreement of Cabinet to allocate resources from the Futures Fund to further assist the Darlington Credit Union in its work to improve the financial wellbeing of the community.

Summary

2. In the consultation on the Medium Term Financial Plan for 2018/19 to 2021/22 residents supported the proposal to create a futures fund theme described as Neighbourhood Renewal. The focus of this theme was to address the financial hardship and deprivation found in households and neighbourhoods across Darlington. Work is underway to develop a framework to guide the investments but early work has begun with an allocation to the Darlington Citizens Advice Bureau from existing budgets to promote take up of unclaimed welfare benefits. There is also now a need and opportunity to make an allocation from the Futures Fund Neighbourhood Renewal theme.
3. The Council has since its foundation, supported the Darlington Credit Union (DCU). In 2013 the Council provided £50,000 of funding, £35,000 of deferred shares enabling the Credit union to offer interest bearing accounts and £15,000 corporate investment to that was to be recycled for use as affordable loans to reduce the risk of residents using loan sharks. Furthermore on 29 April 2014 the Cabinet agreed to invest £50,000 in the DCU as part of a strategy to address growing evidence of financial hardship and the dangerous consequences for families of resorting to unregulated and so-called “pay-day” lenders for household white goods and/or electricals
4. With this support, the introduction of payroll saving for Council staff, and in particular, the hard work and commitment of the staff and board of DCU, the subsequent years have seen impressive growth.
5. Membership has risen from 400 when it was founded in 2009 to over 6,500 currently and this is increasing on a monthly basis. The value of deposits stands at

over £2.7m and over £2m is paid out on loans. The DCU has become 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. 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.

6. The DCU, alongside other key agencies such as Darlington Citizens Advice, the Food Banks and the Councils own housing management and benefits staff, are seeing increasing evidence of hardship, affecting all groups but in particular working households on low and/or insecure wages. The FCA commissioned a study which found that “over half the UK population are financially vulnerable”.
7. DCU are looking to expand as demand has never been greater, however in doing so need to increase their reserves to comply with the Financial Conduct Authority regulations. In discussion with the DCU, it is proposed that a £50,000 increase in the deferred shareholding the Council holds would strengthen the capital assets and put them in a strong position to continue to grow membership and in turn continue to give help and support where it is most needed in Darlington.
8. The Council will also take every opportunity to encourage other public service organisations and businesses to make capital investments with DCU, and to promote payroll saving.
9. The Council’s financial contribution will be registered as deferred shareholding in the capital of the company, therefore from a state aid perspective though it is likely that support of the Credit Union activities may have the benefit of exemption under a general block exemption (GBER) any aid will be minimal and well below the *de minimis* threshold.
10. The relevant legal documentation will be concluded to protect the interests of the Council and document the transfer and registration of the Councils increased shareholding.

Recommendation

11. It is recommended that :-
 - (a) Cabinet make a one-off payment of £50,000 to the Darlington Credit Union in return for a deferred shareholding to strengthen capital balances.
 - (b) Cabinet delegate to the Managing Director, in consultation with the Cabinet Member for Neighbourhoods, Housing and Health, the authority to draw up a funding agreement to secure the objectives and protect the interests of the Council.

Reasons

12. The recommendations are supported by the following reasons :-

- (a) The Cabinet is a signatory to the goals of One Darlington, Perfectly Placed, as a statement of intent to narrow inequalities and protect the most vulnerable in our community.
- (b) The financial hardship faced by many people in Darlington is rising and there was public support for the Council in taking steps to alleviate the problems households face.

**Paul Wildsmith
Managing Director**

Background Papers

- (i) Cabinet Report 29 April 2014 Proposal to support Credit Union low cost loans.
- (ii) Darlington Credit Union Annual General Meeting Report 2018.
- (iii) Report of the DCU Directors and Financial Statements for the Year Ended 31st December 2017.

S17 Crime and Disorder	There is evidence that extreme financial hardship can contribute to criminal behaviour and supporting responsible lending can aid crime prevention
Health and Well Being	There is evidence that financial hardship contributes to poor health and even to suicide, and the Futures Fund NR theme is directed to mitigate the impacts of this.
Carbon Impact	No direct impacts
Diversity	There is evidence that financial hardship impacts on all segments of the community
Wards Affected	All but with particular concentrations of need within those boroughs in the most deprived IMD register
Groups Affected	All
Budget and Policy Framework	There is no impact on the budget and policy framework
Key Decision	No
Urgent Decision	No
One Darlington: Perfectly Placed	One Darlington has as its focus the alleviation of poverty and inequality and this report directly addresses this goal
Efficiency	No direct impact
Impact on Looked After Children and Care Leavers	There is evidence that Care Leavers do face financial hardship and this report addresses the goal of having effective support in place to assist this group of young adults

MAIN REPORT

Information and Analysis

13. There has long been a recognition that credit unions have a key role to play in addressing the adverse impacts of financial hardship. Back in 2014, the Council hosted a seminar in Darlington on behalf of all North East Councils on the future role of Credit Unions. It attracted over 50 delegates from local authorities, their partners and the Credit Union sector. Leaders and Elected Mayors from across the North East were encouraged to consider how they could support the Credit Union sector to develop as an accessible and sustainable source of banking and credit.
14. Darlington was one of the first to sign up to statement of intent and this was agreed by Cabinet at its meeting in July of that year. Members agreed that following:
- (a) We recognise the vital role that Credit Unions have to play in promoting financial inclusion, in acting as a trusted source of accessible and affordable banking and credit, and in providing an essential alternative to high-cost lenders.

- (b) We undertake to work with the Credit Union sector to help it expand in a sustainable way, to increase its membership and to develop a diverse and balanced customer base; and we will take practical measures to achieve this.
15. Practical steps followed including promoting the Credit Union membership to Members, to staff and to partners and encouraging them to open accounts and save with the Credit Union. The schools in Darlington support the Credit Union through a number of early savings arrangements involving the Credit Union and promote financial education and membership to students. The Council removed access to pay day loan companies from the Council's website including those in the library.
 16. Darlington is fortunate to have a strong and well-led Credit Union. Set up in 2009 to offer savings and affordable loan facilities to its members, who live and/or work within the area of the DL postcode DCU provides a responsible and low cost alternative to the non-standard consumer credit market.
 17. Membership is now in excess of 6,500 and are well served from a professional town centre location in Tubwell Row. Thirteen schools and approximately 1,500 children and young people have saved over £125,000 through DCU. There are 47 Corporate members depositing over £325,000. For 342 members the DCU is their sole financial provider with support in paying bills through a budget account service.
 18. However the need is growing, as a nation personal debt and hardship is a fact of life. A survey reported in the national press in the autumn of last year found that 6 million Britains "don't believe they will ever be debt free".
 19. The latest Joseph Rowntree Foundation report on Rates of Poverty in the UK (published 4th December 2017) "highlights that overall, 14 million people live in poverty in the UK – over one in five of the population. This is made up of eight million working-age adults, four million children and 1.9 million pensioners. 8 million live in families where at least one person is in work." Further it states that "The analysis highlights that the three factors which have led to a fall in poverty and are now under question; state support for many of those on low incomes is falling in real terms, rents are increasing, and rising employment is no longer reducing poverty."
 20. It is in this context that the Council consulted the public on how it might deploy the modest investment opportunity within the MTFP, and specifically proposed a Neighbourhood Renewal Fund. The public in consultation supported the theme and work is underway to review the evidence that can guide where best to direct the modest sums of money available.
 21. However in regular discussion with DCU it is apparent that there is a need and an opportunity now to intervene to address financial hardship. They have seen over the last year a growth in demand and would like to expand their membership to provide assistance to those most in need. However in doing so need to increase their reserves to comply with the Financial Conduct Authority regulations who require a 8% Capital/Asset ratio for Credit unions with membership above 10,000.

22. It is proposed that an increase of £50,000 in the deferred shareholding the Council holds would strengthen the capital assets and enable the DCU to meet the FCA regulations.
23. The Council will also take every opportunity to encourage other public service organisations and businesses to make capital investments with DCU, and to promote payroll saving.
24. A funding agreement will be drawn up to protect the interests of the Council in the application of the fund.

Financial Implications

25. The one off £50,000 payment would be funded from the £500,000 Neighbourhood Renewal Futures Fund identified in the 2018/19 – 2021/22 MTFP
26. The £50,000 would be invested in deferred shares, however it must be noted that this is a revenue contribution and not a treasury investment under our treasury management strategy.

Consultation

27. The public were consulted on the MTFP and specifically on the proposal to increase the Futures Fund under a number of themes. Neighbourhood Renewal was one of these themes and secured significant support from those that responded to the consultation.