

Report to: Leader and Lead Member for Strategic Management and Economic Development

Date of meeting: 23 January 2018

By: Chief Executive

Title: East Sussex Credit Union request for subordinated loan.

Purpose: To consider granting a subordinated loan of £150,000 to East Sussex Credit Union (ESCU).

RECOMMENDATIONS:

The Leader and Lead Member for Strategic Management and Economic Development is recommended to offer ESCU a £150,000 subordinated loan from Council reserves.

1 Background

1.1 East Sussex Credit Union (ESCU) has asked East Sussex County Council for £150,000 in the form of a repayable subordinated loan to enable it to assist more residents in the County facing greatest hardship to deal with immediate financial issues and build up savings to help them manage future economic challenges better. Investing in East Sussex Credit Union will contribute to ESCC achieving its overarching priority of helping people help themselves.

1.2 The Credit Union anticipates that the roll out of Universal Credit (UC) across East Sussex will mean that more people are managing limited finances themselves and would benefit from the services the Credit Union can offer. The rollout began in Hastings in December 2016 and has now been implemented in Bexhill and Rother. The current planned roll out to further Jobcentres was Eastbourne in October 2017 and then Lewes and Newhaven in June 2018. As Wealden District covers a large area UC starts on different dates depending on postcodes and the individual Job Centre roll out.

1.3 In April 2016 ESCU received a subordinated loan of £250,000 from Brighton & Hove City Council for the benefit of residents in the city. Given that East Sussex County Council residents make up 32% of the total ESCU membership, with growth at 39% and potential membership in terms of population at 67%, ESCU is looking to ESCC to proportionately match fund this investment with a subordinated loan of £150,000.

2 Supporting information

2.1 It is unclear at this point exactly how many people will be affected by the roll out of UC in East Sussex. However, Hastings & Rother Credit Union (HRCU) gained 500 new members in the first 6 months - these are people who did not have a named bank account to have their UC paid into (unbanked), as is now required. This unplanned increase in demand led to delays in UC recipients getting their money.

2.2 ESCU has the benefit of learning from Hastings & Rother Credit Union about the importance of preparation for the rollout of Universal Credit. It will use the loan to provide a range of services including: zero interest loans to bridge the wait for the first universal credit payment; a basic bank account via a prepaid card for the unbanked; financial support for initial account opening charges and rent payment processing for landlords of universal credit claimants. The loan will help underpin ESCU's work with district /borough councils to support some of the most financially vulnerable residents in the county. It will contribute to early prevention work in this area that local authorities have limited resources to undertake. More information on the work planned in East Sussex is set out in Appendix 1 of the supporting background document attached to this report. ESCU and HRCU are in formal consultation about working more closely together with the potential outcome of shared resources/services/ merger. It is anticipated that out of this consultation process will come a coherent and robust credit union service to all residents of East Sussex including residents of Hastings & Rother.

2.3 A subordinated loan is lent for a minimum 5 years and 1 day. It is important to note that this loan comes with a risk. If ESCU were to go into liquidation repayment of the debt would be made only after the repayment of members' shares. ESCC can advise on the day it would like the loan settled when the loan is granted.

2.4 Local authorities have invested in credit unions in this way because, although forgoing an interest rate in a bank account, they invest for a social return. In Economic terms, research by Salford University on behalf of Leeds City Council found that for every £1 the council invested in credit unions, there was a £9 benefit in retained income for the local economy.

2.5 Should agreement be given it is suggested that the £150,000 could come from Council reserves and be paid back at the end of the 5 year period. The only cost to the council would be the income foregone from being able to invest the £150,000 over this 5 year period. This would amount to an estimated loss of in the region of £1,000 annually (based on cash deposits).

3 Conclusion and recommendations

3.1 The Leader and Lead Member is asked to agree the proposal to offer ESCU a £150,000 subordinated loan from Council reserves.

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BACKGROUND DOCUMENTS

East Sussex Credit Union Subordinated Loan Application