

6. PROPOSAL TO BECOME A CORPORATE MEMBER OF WEST SUSSEX CREDIT UNION

REPORT OF: Lynne Standing, Head of Housing, Environmental Health and Building Control
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Wards Affected: All

Key Decision: No

Report to: Scrutiny Committee for Leisure and Community

Purpose of Report

1. The report proposes that the Council supports the work and principles of the West Sussex Credit Union (WSCU) by becoming a corporate member of WSCU.

Recommendations

- 2. That Committee recommend that the Cabinet Member for Resources and Service Delivery approve the Council becoming a corporate member of the West Sussex Credit Union through an investment of £25,000.**
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Background

3. All advice agencies are aware of the difficulties caused when residents on low incomes and with poor access to conventional sources of finance rely instead on pay day and similar high interest loans. WSCU was established in 2008 with the aim of being "the first choice for low cost, high quality ethical financial services across West Sussex" to provide a viable alternative.
4. WSCU is a not for profit financial cooperative, owned by its members who all live or work in West Sussex. It is regulated and authorised by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) and savings are 100% guaranteed by the Financial Services Compensation Scheme.
5. WSCU services include:
 - Flexible savings accounts;
 - Affordable loans;
 - No arrangement or service fees;
 - No penalties for early repayment of loans;
 - Borrowers are encouraged to structure repayments so that when the loan is paid off they have accumulated some money in a savings account. As a result, many members are both savers and borrowers with the credit union;
 - An ethical approach to personal finance.
6. WSCU has over 3,500 members across West Sussex and has provided loans of more than £3 million to its members. It increasingly works with businesses and local authorities. Mid Sussex District Council is already a member of their Save as you Earn Scheme, which allows members of staff to contribute to their Credit Union account through monthly salary deductions.

7. We also provide the Credit Union with a presence in our reception for the public to attend once per month. They have weekly help points in Burgess Hill at St John's Church Hall and monthly at the East Grinstead Help Point. Targeted promotional and marketing work could also be undertaken in the Think Family Neighbourhoods, with the WSCU being promoted in Think Family casework.
8. WSCU also works with schools in West Sussex and has set up Junior Savers banks in many Primary schools. As a result WSCU has more than 300 young people saving regularly, who between them have saved more than £28,000.
9. Going forward WSCU has identified the following priorities:
 - To continue to attract new savers and borrowers.
 - To develop the strong partnerships WSCU have with many local and national organisations which have supported credit union development in West Sussex - including Districts and Boroughs.
 - To find new ways to promote and market its work so that its existence is more widely known, particular by residents who may benefit from the services it offers.
 - Recognise the challenges to come - for example with the local roll-out of Universal Credit - and to develop products like Jam Jar accounts to help social housing providers support their tenants with budgeting.
 - To continue to build the portfolio of SAYE organisations and pro-actively recruit more partners across West Sussex.

Local authority support for WSCU across West Sussex

10. West Sussex County Council has passed a motion for support for the Credit Union, and has a section on its website supporting the Credit Union.
11. Adur and Worthing District Councils' Joint Strategic Committee on 4 November 2014 agreed that each Council should take up Corporate Membership and each deposit £25,000 in WSCU. They also agreed that Adur District Council should provide WSCU with a loan of £25,000 from the Housing Revenue Account to provide financial support to tenants of Adur Homes.
12. Other councils who have also expressed an interest in corporate membership so far include Chichester and Arun. Crawley already provides WSCU with an annual grant of £30k to run their Rent in Advance scheme.

Corporate Membership of WSCU

13. The Council can become a corporate member of WSCU and make a deposit payment to WSCU. The current capital limit for such deposits is £25,000. The deposit can be withdrawn by the Council at any time without penalty.
14. The corporate body has one vote and the account is eligible for the annual dividend which is voted on at the AGM following the end of year. The dividend payable is based on the previous year's performance. The Council can elect not to withdraw the dividend to further support the credit union.

15. WSCU can count the money towards its lending capital but regulatory liquidity requirements mean that WSCU have to have a certain amount in cash at all times in case of withdrawals.

Other Options Considered

16. The Council could choose not to invest in WSCU. This would miss the opportunity to increase WSCU's capacity to help those on low incomes to access appropriate loans and savings options. Debt is often the cause of homelessness and a factor in Think Family work.
17. Other means of investing in WSCU include grants (i.e. not repayable) and deferred shares. Deferred shares can only be paid back on dissolution of the credit union. These are less flexible than the deposit investment option and are therefore not recommended.

Legal

18. Section 32 of the Co-operative and Community Benefit Societies Act 2014 provides the statutory authority for a corporate body to become a member in a registered Credit Union. The Council is a body corporate by virtue of Section 2 of the Local Government Act 1972.
19. Section 1 of the Local Government (Contracts) Act 1997 provides that statutory provision conferring or imposing a function on a Council confers powers on the Council to enter into a contract with another person for the provision or making available of assets or services or both (whether or not together with goods) for the purposes of or in connection with, the discharge of the function by the Council.
20. Section 1 of the Localism Act 2011 empowers the Council to do anything an individual can do apart from that which is specifically prohibited by existing legislation.

Financial Implications

21. Under the terms of the WSCU Membership Policy, the proposed deposit of £25,000 to become a Corporate Member constitutes an application for the Council to become a shareholder (up to a maximum of 25% of total non-deferred shares operated by the WSCU).
22. In return for becoming a shareholder, the Council would be entitled to receive a dividend subject to approval by the Annual General Meeting at the end of its operating year. Indicatively, for 2014, the WSCU declared a dividend of 1%.
23. It is not stated within the WSCU application to become a Corporate Member whether there is a minimum period for retaining the shares, or whether they may be sold or redeemed at will. However, the nature of the proposals in this report implies a long term commitment, for which the corresponding return on a fixed deposit for the same period would be higher.

24. Therefore, from an investment perspective the dividend returns are likely to be lower than would otherwise be achievable from a fixed term deposit of an equivalent duration. However, the interest on £25,000 is fairly marginal in the Council's overall budgets, and so the Council needs to take a view as to whether the lower returns are offset by the other advantages that the investment brings. Principal among these is the social value to be derived from supporting and promoting the use of WSCU as outlined in the report. There could be an indirect cost saving to the Council were homelessness to be avoided by those who might otherwise rely on less scrupulous lenders, but it is not possible to quantify such a benefit.
25. One further accounting implication of becoming a Corporate Member is that the proposed payments would constitute capital expenditure, necessitating a certain recognition within our Financial Statements. It is not felt that these would be particularly onerous and would not be a significant factor in deciding whether or not to invest in the Credit Union.

Risk Management Implications

26. None identified.

Equality and Customer Service Implications

27. The aim of the proposal is to provide better options for more vulnerable residents, in particular those on low incomes, to help prevent them getting into a spiral of debt. The impact of the proposal on customers should therefore be positive.

Other Material Implications

28. None.

Background Papers