

Grants determination sub-committee 26 November 2020	 TOWER HAMLETS
Report of: Ann Sutcliffe	Classification: Unrestricted
Credit Union Grant Proposal	

Lead Member	Cllr Mufeedah Bustin, Cabinet Member for Planning and Social Inclusion
Originating Officer(s)	Ellie Kershaw, Tackling Poverty Programme Manager
Wards affected	All wards
Key Decision?	No
Forward Plan Notice Published	[Insert date notice was published]
Reason for Key Decision	N/A
Community Plan Theme	[State Theme]

Executive Summary

LCCU exists to ***improve financial resilience and reduce poverty within our community*** by encouraging people to save, giving access to safe and affordable credit as well as providing banking solutions to those excluded by traditional banks.

Due to the impacts of the pandemic, it is likely that more residents will need a method of accessing affordable finance. In order to continue to make loans, the Credit Union needs a grant to increase the amount of money it holds in reserves.

Recommendations:

The Grants Determination sub-committee is recommended to:

1. Agree that a grant of £100,000 should be made to London Community Credit Union

1. REASONS FOR THE DECISIONS

- 1.1 Many residents of Tower Hamlets have been adversely impacted financially by the Covid-19 pandemic. The Credit Union offers a safe, lower interest method of borrowing. In order to make the maximum number of loans possible, the Credit Union needs to maintain a level of funding in reserves. The current level will mean that further loans cannot be made.

2. ALTERNATIVE OPTIONS

- 2.1 The Committee could decide not to make the grant. This would mean that London Community Credit Union would have to reduce the number of loans it is able to make this year.

3. DETAILS OF THE REPORT

- 3.1 LCCU exists to ***improve financial resilience and reduce poverty within our community*** by encouraging people to save, giving access to safe and affordable credit as well as providing banking solutions to those excluded by traditional banks. They have 16,000 members, with approximately one third of these being in Tower Hamlets.
- 3.2 Since the beginning of the pandemic, requests for loans have increased significantly. The Credit Union has both reduced its rates and reconfigured its services to enable lending and saving to continue throughout this time.
- 3.3 In order to provide loans, the Credit Union is required to hold a minimum capital adequacy ratio, which was increased by the Bank of England this year. The pandemic meant that the Credit Union had a period of subdued income compared to its plan, which has had an impact on reserves. They are requesting £100,000 which will boost reserves to meet this ratio, which in turn will enable them to continue to make loans.
- 3.4 The Credit Union is also considering investing a small sum in remote joining options, allowing new members to join without the need to attend in person. This would have the short term impact of increasing safety during the pandemic and the long term impact of making joining easier which they anticipate will boost membership.
- 3.5 In an effort to increase membership, the Credit Union has doubled its advertising budget in 2020/21.
- 3.6 Since the Credit Union was founded in 2000, it has provided £21 million of loans to 18,000 residents in Tower Hamlets. The ability to go to the Credit

- Union prevents residents from accessing other forms of high cost lending. For each £1 borrowed from the Credit Union, a resident who would otherwise access high cost lending saves an average of 46p in interest payments.
- 3.7 Moving forward, the Council intends to work with the Credit Union on an extension to the Resident Support Scheme, incorporating loans for residents who do not qualify for a grant. This would require the ability for the Credit Union to make additional loans.
- 3.8 Savings balances have risen since the start of the pandemic, meaning that money is available for making loans- but the capital adequacy ration must be met.
- 3.9 The grant would be made from Tackling Poverty reserves.

4. EQUALITIES IMPLICATIONS

- 4.1 There are no specific equalities impacts arising from this recommendation. LCCU reaches a good mix of clients and keeps data on these so that any underrepresentation can be addressed through targeted communications.

5. OTHER STATUTORY IMPLICATIONS

- 5.1 This recommendation could have a potentially beneficial impact on crime reduction by reducing the incidence of use of illegal money lenders.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

- 6.1 The Credit Union offers loans to residents of Tower Hamlets at lower interest rates than private lenders in the markets. The impact of COVID has increased demand for these loan facilities and has resulted in the credit union reserve levels falling below the de minimus level required by the Bank of England.
- 6.2 This report seeks to provide the Credit Union with additional funding of £100,000 to ensure its reserve are above this de minimus level, enabling it to offer further loans to residents within Tower Hamlets.
- 6.3 It is proposed to use the Mayors Tackling Poverty reserve to fund this contribution to the Credit Union. After adjusting for budgeted drawdowns in year, this reserve has a balance of £1.425m. Further commitments of £250k towards the Residents Support Scheme and £399k for team costs have been agreed, reducing the available balance to £776k.
- 6.4 The Tackling Poverty team will be funded from this reserve in 2021/22. Staff costs are estimated to be £600k. This leaves sufficient funding available to meet the contribution to the Credit Union. However, it should be noted that making this contribution will mean that there will be a reduced balance (c£80k) for use on future projects and the decision to fund the credit union should be taken in consideration with other priorities for this funding.

7. COMMENTS OF LEGAL SERVICES

- 7.1 The Council has the legal power to make this grant. However, such a grant constitutes state aid for the purposes of EU law.
- 7.2 However, EU law contains a de minimis exemption. The Council will not be subject to state aid penalties where the sum total of the state aid given to the particular organisation is less than €200,000 in any continuous three year period.
- 7.3 The Council will need to ensure that if any future assistance is required by the organisation that consideration is given to any previous assistance granted to ensure that the Council does not breach this threshold in any continuous three year period.
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Linked Reports, Appendices and Background Documents

Linked Report

- None

Appendices

- LCCU Annual report 2018/19
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https://londoncu.com/wp-content/uploads/2020/02/Annual-Report-2018-19_web.pdf

Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012

- None

Officer contact details for documents:

N/A