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Agenda item:

**[No.]****Cabinet****On 23<sup>rd</sup> March 2010**

Report Title. Establishment of Credit Union services in Haringey

Report of **Niall Bolger (Director of Urban Environment)**

Signed :

 15<sup>th</sup> March 2010

Contact Officer : Marc Dorfman (Assistant Director Planning and Regeneration)

Wards(s) affected: **All**Report for: **Key Decision****1. Purpose of the report (That is, the decision required)**

- 1.1. This report sets out the detailed proposal for the establishment of Credit Union services in Haringey. The detailed proposal is attached as appendix 1 and has been prepared by **Islington & City Credit Union Ltd** following an invitation for Credit Unions in neighbouring boroughs to submit proposals against a brief agreed by CAB on 29<sup>th</sup> October 2009.
- 1.2. The proposal prepared by **Islington & City Credit Union Ltd** is recommended as the preferred proposal by a panel, consisting of officers from Corporate Procurement and Planning and Regeneration. It is recommended that the financial resources allocated by Council on February 22<sup>nd</sup> (£75,000 over the three financial years 2010/11, 2011/12 and 2012/13) and by HSP Enterprise Board on February 2<sup>nd</sup> (£71,000 in 2010/11) are made available to **Islington & City Credit Union Ltd** to deliver this proposal (£146,000 in total over the three financial years 2010/11, 2011/12 and 2012/13).
- 1.3. By initiating this work, Haringey Council is making a substantial commitment to tackling financial exclusion in the borough, which is a policy issue of increasing relevance as the full impact of the recent recession is felt by the borough's residents. Financial Exclusion as a policy issue is not yet explicitly addressed by any corporate policies or strategies, however there are synergies with Council Plan priorities and Sustainable Community Strategy Objectives as stated in paragraphs 3.1 to 3.2.

## **2. Introduction by Cabinet Member, Councillor Bob Harris**

- 2.1. Credit Unions offer affordable credit to their members, which can prove vital in tackling financial exclusion and exploitation by door step lenders and loan sharks. This can benefit in particular, deprived communities and residents who are struggling financially during the recession.

## **3. State link(s) with Council Plan Priorities and actions and /or other Strategies:**

- 3.1. Council Plan – A Thriving Haringey – With an up to date potential portfolio of services, including a current account and debit card, pre-paid credit cards and affordable loans Credit Unions are an increasingly viable alternative to commercial banking and loan companies. A Credit Union therefore, could play a significant role in tackling financial exclusion in deprived communities where borrowing needs may be served only by pay-day loans, sub-prime lenders, store cards or, at worst, doorstep lenders. Additionally the savings accounts and optional current account facilities can help individuals and families manage their finances effectively. A Credit Union can be a key tool in responding to the recession in Haringey. For the same reasons, a Credit Union can also help the Council Deliver outcomes under the Caring Haringey strand of the Council Plan – by supporting families and vulnerable people through more responsible and secure financial services.
- 3.2. A Credit Union would help the Haringey Strategic Partnership in meeting the six outcomes of the Sustainable Community Strategy, in particular:
- Economic vitality and prosperity shared by all by helping to tackle poverty and social exclusion through community driven financial services.
  - Be safer for all by reducing the vulnerability of individuals and families in deprived communities to door step lending and other forms of illegal money lending and extortion.
  - Healthier people with a better quality of life by tackling the stress and associated ill health effects of poverty and cycles of debt.

## **4. Recommendations**

### **4.1. The Cabinet is recommended:**

- That **Islington & City Credit Union Ltd** is endorsed as the preferred partner in establishing Credit Union services in Haringey for the reasons set out in paragraphs 5.1 to below.
- That the financial resources referred to in paragraph 1.2 be made available to **Islington & City Credit Union Ltd** to deliver their proposal as set out in appendix 1 subject to satisfactory completion of final negotiations, subject to the Council's standing orders and policies relating to grant in aid.

4.2. This recommendation is made subject to the following conditions:

- That it is subject to the receipt of satisfactory references.
- Final assessment of the latest accounts.
- That it is subject to an agreed service level agreement.

4.3. The Director of Urban Environment is instructed to conclude these negotiations and agree the final terms and conditions of the partnership in consultation with the Cabinet Member for Resources (Economic Development).

## **5. Reason for recommendation(s)**

### **Scoring and Evaluation of proposals**

5.1. Corporate Procurement and Legal Services have advised that this can be treated as a grant, rather than procurement and that with respect to EU State Aid rules it should be covered either by a block exemption or the de minimus rule – being less than €250,000.

5.2. The invitation to submit proposals was sent to nine Credit Unions in neighbouring boroughs. An evaluation framework was established to assess submitted proposals against the following categories:

- Financial and Organisational Capacity (40% weighting)
- Why they want to work in Haringey? (20% weighting)
- How they will deliver in Haringey? (40% weighting)

5.3. Two proposals were submitted by Friday 5<sup>th</sup> March. Proposals were submitted by Islington & City Credit Union Ltd and North London Credit Union. The proposals were evaluated and scored against a prescribed framework by officers from Planning and Regeneration, Corporate Procurement and Corporate Finance.

5.4. All scorers gave a higher overall mark to Islington and City Credit Union, whilst Corporate Finance has aired some concerns about the financial statements provided by North London Credit Union.

5.5. Overall the summary of the proposals submitted, were that:

5.6. *Islington & City Credit Union Ltd* ~ The proposal understood the brief and provided a substantial growth plan to 2015 and a good range of services and loans, whilst delivering within the available funding of £146,000. Corporate Finance noted that the most recent accounts were about to be published, however their performance on available information was positive.

5.7. *North London Credit Union* ~ The proposal did not fully relate to the context of community development and the proposal was costed at almost twice the

available funding and included a substantial fund raising target. In reviewing the submitted accounts Corporate Finance identified that Net Profit ratio analysis shows that the company's expenses exceeds its income in the last two financial years. One main reason for this is an increase in its bad debts by 139.5% compared with 2008.

- 5.8. Officers have made the recommendation that Islington & City Credit Union are nominated as the preferred partner and that the £146,000 identified funding is allocated to them to deliver the service in Haringey subject to satisfactory completion of final negotiations.

### **Financial Inclusion Policy**

- 5.9. The role a Credit Union can play in promoting financial inclusion in the borough as well as responding to the recession. Through ABCUL commissioned research it is estimated that one and half million households across the UK are without even the most basic financial products. In March 2007 HM Treasury published a policy on Financial Inclusion that praised the strength of financial services available to British consumer society, but recognised that the market was leaving some people behind – the financially excluded. The policy recognised that this made the cost of living potentially more expensive and made financially excluded individuals and families vulnerable to spiralling debt and poverty. The Financial Inclusion Champions programme, run by the DWP, is a resulting action of this Treasury policy and is working to address institutional and social barriers to financial inclusion.

- 5.10. With an up to date portfolio of services, including a current account and debit card, pre-paid credit cards and affordable loans Credit Unions are an increasingly viable alternative to commercial banking and loan companies. Key features include:
- Cheaper loans at an average of 12% APR interest rates compared to upwards of 790% APR offered by mainstream loan providers to individuals not eligible for loans through high street banks.
  - Reduces the prevalence and impact of loan sharking and other forms of illegal money lending.
  - Access to banking services for people who have been turned away from high street banks.
  - Community based financial advice and debt management integrated into personal finance.
  - Debit card facilities and a current account to give customers the benefit of direct debit and standing order services for reduced rates on utility bills etc.
  - Annual dividend payments for members/savers compare favourably with interest rates offered by high street banks whilst interest rates are low during the recession.

## Debt and Financial Exclusion in Haringey

5.11. Local data from Haringey Citizens Advice Bureau shows that enquiries relating to Debt have risen by 89.5% in the year to Quarter 1 2009/10. This is a rise from 406 to 770 enquiries. There are increases across all categories particularly around fuel, council tax arrears, overdrafts and unsecured personal loans. The former two can lead to debt situations and latter are debt situations that could be managed better through a Credit Union. The figures are stark, customers eligible for a personal loan through a high street bank would expect interest rates of around 10% APR, however those not eligible have only sub-prime lenders, pay-day loans or door-step lending as outlets for borrowing. Example APRs for borrowing £100 are below:

- Cash converters 328% APR
- e-Premier Finance 791.6% APR

## 6. Other options considered

6.1. The other principal approach is to establish a Credit Union from scratch. This option was not recommended to CAB on 29<sup>th</sup> October 2009 as it is the most expensive and time consuming approach to establishing Credit Union services in Haringey.

6.2. CAB also considered a range of additional services commonly adopted by Credit Unions to increase the attractiveness of their overall service offer. These include current accounts with a VISA Debit Card and pre-pay Credit Cards. Both would incur additional set-up costs, but CAB agreed that they should be considered at an appropriate point in the development of a Credit Union service in Haringey.

## 7. Summary

7.1. This report introduces the preferred partner to receive the financial resources outlined in paragraph 1.2 and recommends that the Cabinet endorses **Islington & City Credit Union Ltd** as the preferred partner.

7.2. The report sets out in paragraphs 5.1 to the scoring and evaluation process through which **Islington & City Credit Union Ltd** was recommended as the preferred partner.

7.3. The report also sets out the policy context and identifies Financial Exclusion as an emerging policy issue.

## 8. Chief Financial Officer Comments

8.1. Total funding of £146,000 is available to help set up and support the costs of the

credit union.

8.2. This is made up from £25,000 per annum for 3 years from Council resources and £71,000 in 2010-11 only from Area Based Grant.

8.3. The recommended proposal is within the available budget, although officers would need to be satisfied that the service can be adequately provided for the costs outlined.

#### **9. Head of Legal Services Comments**

9.1. Although this is being treated as a grant a competitive procurement process has been undertaken to identify a delivery agent to provide credit union services in the Borough.

9.2. The well-being powers set out in Section 2 of the Local Government Act 2000 enable local authorities to incur expenditure, give financial assistance to any person and to enter into arrangements with any person for the promotion of the economic well being of the area. The grant to the selected credit union will be given under these powers.

9.3. It is not entirely clear whether grants to credit unions are subject to state aid rules. However even if this grant should be deemed subject to state aid rules it is likely that it would be covered either by the de minimus exemption or the SGEI block exemption as a Service of General Economic Interest.

9.4. The grant will be given subject to the Council's terms and conditions. This should be approved by Legal Services before the agreement is entered into.

9.5. Subject to 9.4 above the Head of Legal Services sees no legal reasons preventing Members from approving the recommendations in paragraph.4 of the report.

#### **10. Head of Procurement Comments – [ Required for Procurement Committee]**

10.1. not applicable

#### **11. Equalities &Community Cohesion Comments**

11.1. Credit Unions promote financial inclusion and tackle poverty, and therefore seek to be inclusive to all members of the community.

11.2. An Equalities Impact Assessment will be completed as the service is developed.

## **12. Consultation**

- 12.1. Two stakeholder events have been held in the borough, on July 31<sup>st</sup> and September 14<sup>th</sup>. The recommendations in the interim report have been shaped by discussions and feedback from delegates at both meetings.

## **13. Service Financial Comments**

- 13.1. We confirm that there is £146,000 funding available for this project, comprising £71,000 Area Based Grant for 2010/11 that was approved by HSP Enterprise Board on 2<sup>nd</sup> February 2010 and £75,000 over three years that was approved by Council on 22<sup>nd</sup> February 2010. There will be no impact on the mainstream revenue budget.

## **14. Use of appendices /Tables and photographs**

- 14.1. Appendix 1 – exempted

## **15. Local Government (Access to Information) Act 1985**

- 15.1. A file is held at 639 High Road, N17
- 15.2. This report contains exempt and non-exempt information. The exempt information is contained in appendix 1 of this report and is not for publication. The exempt information is exempt under the following category (identified in the amended Schedule 12A of the Local Government Act 1972, S.3:
- Information relating to the financial or business affairs of any particular person (including the authority holding that information) (Category 3).