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10 March 2014

**Name of Cabinet Member:**

Cabinet Member (Strategic Finance and Resources) – Councillor Gannon

**Director Approving Submission of the report:**

Executive Director, Resources

**Ward(s) affected:**

All

**Title:**

Supporting Credit Unions in Coventry

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**Is this a key decision?**

No. Although the matter within the Report can affect all wards in the City, it is not anticipated that the impact will be significant and it is therefore not deemed to be a key decision.

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**Executive Summary:**

During the economic downturn there has been a proliferation in the availability of expensive short term loan providers. Often it is the most financially vulnerable that have recourse to access the services of so called 'pay day lenders.' In response to this trend and as part of the Council's wider agenda to support financial inclusion, the Council is proposing to provide financial support to Credit Unions in Coventry to help ensure the effective provision of Credit Union services for city residents.

**Recommendations:**

The Cabinet Member (Strategic Finance and Resources) is recommended to approve the provision of grant funding to Credit Unions in Coventry for three years up to a level not exceeding £60,000 in any one financial year.

**List of Appendices included:**

None

**Other useful background papers:**

None

**Has it been or will it be considered by Scrutiny?**

No

**Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?**

No

**Will this report go to Council?**

No

## **1. Context (or background)**

- 1.1 Since the beginning of the economic downturn in 2008 the country has witnessed a proliferation in the supply of short term finance providers. Many so-called 'pay day lenders' offer convenient, quick, short term loans at interest rates exceeding 2,000 per cent APR.
- 1.2 Often it is the most financially vulnerable in our society who have cause to access these types of services and it is the financially vulnerable who can least afford the excessive charges that can be incurred.
- 1.3 The City Council wants to support Coventry's most vulnerable residents and ensure that people have access to affordable financial services. To this end the Council is taking steps to support the provision of Credit Unions in the city.
- 1.4 A Credit Union is a not-for-profit financial cooperative governed by a Board of Directors elected by and from its membership. Since Credit Unions are not-for-profit organisations, any money made above the cost of operations is returned to the members in the form of a dividend.
- 1.5 Credit Unions have a number of clear objectives enshrined in their constitution. These rules are:
  - Promoting thrift – members must be encouraged to save as well as borrow
  - Providing credit and loan products with fair and reasonable interest rates
  - The efficient use and control of members' savings for mutual benefit in order to earn a rate of return (the dividend)
  - Training members to use money wisely, devise a budget and manage their financial affairs
  - Members own and control their Credit Unions
- 1.6 Credit Unions are regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) and must be registered in accordance with the 1979 Credit Unions Act. Credit Union members are covered by the Financial Services Compensation Scheme (FSCS) which covers deposits up to a value of £85,000 per individual. The Grant Aid agreement will require the Credit Union to provide their registration details and maintain registration in future.

## **2. Options considered and recommended proposal**

- 2.1 The Council is proposing to make funding available to assist Credit Unions in securing and maintaining accommodation which enables them to provide effective Credit Union services to Coventry residents.
- 2.2 Specifically the Council is proposing to provide financial assistance to enable New Central Credit Union to move from its current location in the City Arcade to more spacious and prominent premises in the centre of the city.
- 2.3 Funding will be provided to facilitate the move to new premises on a basis that is cost-neutral to the Credit Union - the grant will equate to the difference between current rental and rates costs and the increased costs for the new property. The amount of revenue grant provided will not exceed £30,000 per annum. The Council may also consider one-off funding for refurbishment costs which will not exceed £10,000.

- 2.4 The funding will be allocated from the Cabinet Member's (Strategic Finance and Resources) policy contingency fund and will be for a fixed period of three years. The expectation is that the Credit Union will grow their membership from their new, more prominent location in the city. At the end of the three year period the Council will review the financial position of the Credit Union to determine what level of growth has been achieved. At this point the Council will review the level of funding, if any, that is required to support the Credit Union going forward. The expectation is that the Credit Union will have increased sufficiently its membership and operating surplus during the three year period to ensure future viability independent of Council funding.
- 2.5 The Credit Union will be required to fulfil the following obligations as part of the Grant Aid Agreement:
- The Credit Union will maintain Credit Union status
  - The Credit Union will provide annual financial statements to the Council
  - A representative of the Credit Union will be required to attend the Coventry Partnership Financial Inclusion Forum meetings held quarterly.
  - A representative from the credit union will attend twice-yearly meetings with Council officers to review the financial performance of the Credit Union
  - Credit Unions will be expected to demonstrate year-on-year growth in Membership
  - Credit Unions will be expected to demonstrate year-on-year increases in operating surplus
- 2.6 In addition to the funding detailed above the Council will consider wider financial support for Credit Unions operating in the Coventry area. The total value of funding provided for this purpose, including the funding for New Central Credit Union, will not exceed £60,000 per annum and will be entirely funded from the Cabinet Member (Strategic Finance and Resources) policy contingency fund.
- 2.7 The funding arrangements discussed in this report form part of a wider commitment from the Council and partner organisations to support the work of Credit Unions and bring about increased membership of Credit Unions amongst city residents. The Council and its partners will continue to support and work closely with Credit Unions in the city to improve access and membership and help to provide a strong sustainable community finance infrastructure for the city.

### **3. Results of consultation undertaken**

- 3.1 No consultation has been undertaken.

### **4. Timetable for implementing this decision**

- 4.1 The grant aid agreement will come into effect from the date that increased rental and business rates charges begin to be incurred by the Credit Union. For New Central Credit Union this is likely to be in the first quarter of 2014/15.

### **5. Comments from Executive Director, Resources**

#### **5.1 Financial Implications:**

The funding requirement will be met from the Cabinet Member (Strategic Finance and Resources) policy contingency fund.

#### **5.2 Legal Implications:**

The Grant Funding will be subject to a formal grant aid agreement.

## 6. Other implications

None

### 6.1 How will this contribute to achievement of the Council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / LAA (or Coventry SCS)?

The availability of effective Credit Union provision in Coventry supports the Council's agenda to tackle financial exclusion and support the city's most vulnerable residents.

### 6.2 How is risk being managed?

The grant aid agreement will detail the contractual obligations of Credit Unions receiving financial support to ensure that monies are used for the specified purpose.

### 6.3 What is the impact on the organisation?

None

### 6.4 Equalities / EIA

There are no issues to consider in respect of the duty under section 149 of the Equality Act 2010.

### 6.5 Implications for (or impact on) the environment

None

### 6.6 Implications for partner organisations?

Credit Unions receiving support will be required to attend regular financial inclusion forum meeting to help ensure that relevant stakeholders and partner organisations can engage with and support collectively the work of Credit Unions in Coventry.

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