



Mayor and Cabinet

Report title: Loan to Lewisham Plus Credit Union

Date: 19 July 2023

Key decision: No.

Class: Part 1

Ward(s) affected: All

Contributors: Chris Flower - Treasury and Investment Manager Finance

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Outline and recommendations

The Council is proposing to provide a loan of £200k to Lewisham Plus Credit Union to help facilitate the merger with the other local credit union Crownsavers Credit Union. The Bank of England require a certain level of capital reserves so the loan would be used to capitalise the Lewisham Plus Credit Union to help meet those requirements.

Credit Unions offer vital banking services to vulnerable sectors of our community. Lewisham Council staff are members of both Credit Unions and many have regular payroll payments.

Recommendations:

- To approve the loan of £200k to Lewisham Plus Credit Union subject to the merger with Crownsavers Credit Union.
- To delegate to the Director of Finance the agreement of the final terms of loan agreement.

1. Summary

- 1.1. There are two credit unions who provide vital banking services to the local community. Crownsaver Credit Union is struggling to remain a going concern and been established since 1997 and provides banking facilities to the local community.
- 1.2. Lewisham Plus Credit Union would like to merge with Crownsaver Credit Union to secure the business and to provide greater capacity and resilience for the local community.
- 1.3. The loan to Lewisham Plus Credit Union would allow them to meet the Bank of England's capitalisation criteria for the larger joint credit union post merger.

2. Recommendations

- 2.1. Mayor and Cabinet is recommended to:

- approve the loan of £200k to Lewisham Plus Credit Union subject to the merger with Crownsavers Credit Union; and
- delegate to the Executive Director of Corporate Resources the agreement of the final terms of loan agreement.

3. Policy Context

- 3.1. This report aligns with Lewisham's Corporate Priorities, as set out in the Council's Corporate Strategy (2022-2026):
- Cleaner and Greener
 - A Strong Local Economy
 - Quality Housing
 - Children and Young People
 - Safer Communities
 - Open Lewisham
 - Health and Wellbeing

4. Lewisham Plus Credit Union

- 4.1. The Council has been approached to support the merger of the two credit unions that operate in Lewisham.
- 4.2. Lewisham Plus Credit Union are looking to take over Crownsavers Credit Union, an organisation currently struggling to remain a going concern.
- 4.3. Crownsavers was established in 1997, initially offering services to Lewisham Council employers and later has provided services to Lewisham University Hospital and Lewisham College.
- 4.4. Crownsavers lost their Chief Executive in 2020 and their Board have recently approved Lewisham Plus Credit Union to discuss a takeover.
- 4.5. Both credit unions operate in a similar geographical area, with Crownsavers memberships being made up of Lewisham employees. Current Council employees with a Crownsaver membership is 1000, with 350 payroll deductions plus a further 70 Lewisham Homes employees.
- 4.6. The proposal will create a lot of synergies including the use of the same technology and software for processing transactions and servicing members.
- 4.7. The Credit Union will offer savings accounts, affordable loans, online banking facilities and payroll deductions.
- 4.8. A merger will create a stronger credit union, with greater capacity and resilience for the local community.

5. The Proposal

- 5.1. It is proposed that Lewisham Council to provide an unsecured subordinated loan of £200k to Lewisham Plus Credit Union.
- 5.2. The loan is subject to the merger with Crownsaver Credit Union and will provide

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additional capital reserves to meet the Bank of England's PRA (Prudential Regulation Authority) guidelines for asset to capital reserves ratio.

- 5.3. Loan will be for a 10 year period to allow the merged Credit Union to establish itself in the area.
- 5.4. A subordinated loan is debt that ranks after other debts of the credit union. The loan will be charged at 3.0% above the Bank of England's base rate in recognition of the increased risk.
- 5.5. This proposal will support the new merged entity on a stable capital base but still retain the ability to grow and to carry on providing support to Lewisham employees and the local community.

6. Financial implications

- 6.1. The loan will be provided at a commercial rate up to 3% above the Bank of England's base rate to reflect the fact that the loan is unsecured and to have regard to the Subsidy Control regulations. The loan is charged at a level that is above the level that the council could receive interest from its other investments and the rate is above the level it could borrow from the PWLB.
- 6.2. The loan will be used to capitalise Lewisham Plus Credit Union. The loan is being made in accordance with the Council's Investment Strategy and will earn income for the council in the form of interest payments.
- 6.3. The loan is funded from cash held for Treasury Management purposes and not funded from the revenue budget.
- 6.4. Due diligence has been carried out for Lewisham Plus Credit Union and the proposed merger with Crownsave Credit union. We are satisfied that the business plan for Lewisham Plus Credit Union is reasonable and there will be sufficient funds available to repay the loan at the end of the term.
- 6.5. Lewisham Plus Credit Union will use the funds to capitalise the merged Credit Unions so that it meets the capitalisation rules set out by the Prudential Regulation Authority. Once the merger has taken place Lewisham Plus Credit Union will be required to maintain a capital/assets ratio of 8%. The capital is kept in an interest bearing account and it is to protect member funds in the event of a loss and to reduce the risk of failure.
- 6.6. The Council has provided loans to third party and other organisations and its long-term debtors are circa £60m. The Council does not have any other unsecured subordinate loans however if we compare the £0.2m loan to the Council's total loans of £60m then it is proportionate.
- 6.7. To ensure that the loan is recovered in full the Council has credit control procedures in place to monitor and recover any debts. The loan agreement sets out the default and recover terms and conditions.
- 6.8. The Council uses the 'expect credit loss' (ECL) model to assess the potential credit loss from its financial assets. As at 31 March 2023 the ECL on its investments was calculated at £0.042m. The ECL is reviewed every year.
- 6.9. The Council's Treasury Management Strategy sets limits for borrowing it does not formally provide limits on loans. This loan is outside the Treasury Management loans and is therefore considered on a case by case basis.
- 6.10. The council is not seeking a personal guarantee from the directors of the Lewisham Plus Credit Union or any other security for repayment of the loan.
- 6.11. Lewisham Plus Credit Union provides services across all wards of the London Borough

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of Lewisham so this affects all wards.

7. Legal implications

- 7.1. Section 12 of the Local Government Act 2003 gives the Council a power to invest, including by way of making loans. In exercising this power, the Council must have regard to the guidance on local authority investments issued from time to time by the Secretary of State (the “**Guidance**”). When entering into non-treasury investments, the Guidance requires the Council to consider the balance between security, liquidity and yield based on their risk appetite and the contribution(s) of that investment activity. However, the Guidance also states that a local authority may choose to make loans to local enterprises as part of a wider strategy for local economic growth even though those loans may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity. However, in order to make such loans the Council must be able to demonstrate in its Investment Strategy that:
- Total financial exposure to this type of loan is proportionate;
 - The Council has used an allowed “expected credit loss” model for loans and receivables as set out in International Financial Reporting Standard (IFRS)9 Financial Instruments as adopted by proper practices to measure the credit risk of their loan portfolio;
 - There are appropriate credit control arrangements to recover overdue repayments in place; and
 - The Council has formally agreed the total level of loans by type that it is willing to make and their total loan book is within the Council’s self-assessed limit.
- 7.2. In agreeing to make the loan the Council must have regard to its obligation to ensure a prudent use of local taxpayers’ resources. The loan will be subordinated to all other lenders. Therefore, in the event of insolvency of the Lewisham Plus Credit Union, any debt owed to the Council will be repaid after the credit union’s other debts have been paid. The loan will also be unsecured which means that the debt owed to the Council will not be protected by guarantee, mortgage or other security in the event of the credit union’s insolvency or failure to make repayments. This makes the loan a riskier investment than if the loan were secured and not subordinate. The Council should therefore be satisfied following its due diligence into the credit worthiness of the borrower such that the risks of non-repayment are kept to an acceptable level.
- 7.3. The use of Council resources to make a loan to Lewisham Plus Credit Union may amount to a state subsidy. The Council must therefore comply with the UK’s subsidy control regime and must not make the loan unless it is of the view that it is consistent with the subsidy control principles. A loan provided on terms that might reasonably be expected to have been made available on the market is not a state subsidy. Officers consider that the loan will be provided at a commercial rate of interest (see 6.1 above). The Subsidy Control (Gross Cash Amount and Gross Cash Equivalent) Regulations 2022 set out how the interest rate for a loan that might reasonably have been expected to have been available on the market should be determined. For a 10-year loan the Regulations provide that a market interest rate would be 3.4% plus an adjustment (1% - 3.4%) depending on the creditworthiness of the recipient. The interest rate proposed is 3% above the Bank of England Base rate (currently 5%) and therefore the interest rate proposed is currently at/above a rate that might reasonably be expected to have been made available on the market.

8. Equalities implications

- 8.1. There are no direct equalities implications directly arising from this report.

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9. Climate change and environmental implications

9.1. There are no direct environmental implications directly arising from the report.

10. Crime and disorder implications

10.1. There are no direct crime and disorder implications directly arising from the report.

11. Health and wellbeing implications

11.1. There are no direct health and wellbeing implications directly arising from the report.

12. Social Value implications

12.1. The local credit unions provide a essential banking services to a vulnerable sector of the local community.

12.2. Credit unions promote responsible lending and do not lend more than their members can afford to repay.

12.3. Members are encouraged to save as well as borrow money. Loans are fair and provided at a reduce cost to its members and wise money management is encouraged.

13. Background papers

13.1. None

14. Report author(s) and contact

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