

Brighton & Hove City Council

Policy & Resources Committee

Agenda Item 152

Subject: Wave Community Bank loan extension

Date of meeting: 16 March 2023

Report of: Chief Finance Officer

Contact Officer: Name: James Hengeveld
Tel: 01273 291242
Email: James.hengeveld@brighton-hove.gov.uk

Ward(s) affected: All

For general release

1. Purpose of the report and policy context

1.1 This report seeks to extend a £0.250m subordinated loan granted to Wave Community Bank (The trading name for East Sussex Credit Union) which is due to expire in March 2026.

2. Recommendations

2.1 That the Policy & Resources Committee agrees to extend the loan agreement to Wave Community Bank for a period of a further 10 years to March 2036.

3. Context and background information

3.1 The former Policy Resources & Growth Committee approved on 16 Jan 2016 a £0.250m subordinated, interest free loan agreement with East Sussex Credit Union for a period of 5 years to March 2021. This loan agreement was further extended to March 2026 by Policy, Resources & Growth Committee at its meeting on 11 October 2018.

3.2 The purpose of the loan is to provide additional cash resources to increase the amount and number of loans that can be offered to people facing financial vulnerability with ethical, affordable and sustainable financial support via a locally based credit union.

3.3 The loan has helped Wave Community Bank (WCB) to provide greater levels of safe, affordable, accessible financial products to some of the city's most financially excluded and at-risk residents. In particular, the loan has enabled WCB to:

- Take the risk of extending their offer of small 'crisis loans' by 60%, making them core business and therefore engaging members and potential members affected by welfare reforms;

- Target 2,100 existing members plus an additional 20% of residents from the most deprived neighbourhoods;
 - Target the 'in-work poor' to encourage saving via payroll deduction aimed at those on low incomes, people referred through Lloyds loan signposting, and those affected by welfare reforms;
 - Provide a stimulus to the local economy by increased lending to local businesses.
- 3.4 WCB 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. PRA requires Wave to set aside funding to cover the loan repayment of 20% of the value of the debt each year and therefore the closer the debt is to repayment, the less resources are available to lend and support the above objectives.
- 3.5 It is therefore proposed to extend the loan term from the existing end date of March 2026 by a further 10 years to March 2036.
- 3.6 The loan debt is subordinated to the interest of the members i.e. in the event of liquidation, repayment of the debt would be made only after the repayment of members' shares.

4. Analysis and consideration of alternative options

- 4.1 The council could allow the loan to mature and be repaid on the due date (31 March 2026), however, it could not replicate the level of financial inclusion and support for the most financially vulnerable that this facility is providing via WCB and ultimately would reduce the availability of ethical, affordable and sustainable financial support within the city.

5. Community engagement and consultation

- 5.1 There is no direct community engagement however the proposal supports the city council's financial inclusion strategy which was subject to consultation and engagement.

6. Conclusion

- 6.1 There are significant potential benefits to residents of the city, especially those facing or most likely to face financial exclusion now and in the future. This proposal will help put a local reputable financial institution on a more sustainable basis to enable continued support to those facing financial exclusion.

7. Financial implications

- 7.1 The loan to Wave Community Bank is interest free and therefore the council is foregoing investment income it could otherwise receive when the current loan agreement expires after March 2026.

Finance officer consulted: James Hengeveld Date consulted 01/03/2023

8. Legal implications

- 8.1 The council has the power to pursue the options identified in the report pursuant to Section 1 Localism Act 2011 (the general power of competence) which came into force on the 18th February 2012.
- 8.2 The recommendation is not to require a loan to be repaid and to not charge commercial rates of interest. This might constitute a subsidy pursuant to the Subsidy Control Act 2022. However if it is a subsidy, it will constitute 'Minimal Financial Assistance' (MFA) which is permitted under the Act. The threshold for MFA is £315,000. The interest which the Council would receive under a commercial interest until 2036 is less than this amount.

Name of lawyer consulted: Alice Rowland Date consulted 07/03/23

9. Equalities implications

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

10. Other Implications

Social Value and procurement implications

- 11.1 The provision of the loan facility to Wave Community Bank provides ethical, affordable and sustainable financial support to Brighton & Hove residents who are financially vulnerable.

Supporting Documentation

1. Background documents

1. Policy, Resources & Growth Committee report (16 January 2016)
2. Policy, Resources & Growth Committee (TBM report, 11 October 2018)

