

Report to: Cabinet

Date: 6 June 2024

Title: Wave Community Bank Subordinated Loan

Report of: Homira Javadi, Director of Finance and Performance

Cabinet member: Councillor Zoe Nicholson, Leader of the Council and Cabinet member for finance, assets and community wealth building

Ward(s): All

Purpose of report: To consider the principles of providing financial support in the form of a loan to Wave Community Bank.

Decision type: Key

Officer recommendation(s):

- (1) Cabinet to agree the principle of LDC providing a subordinated loan to Wave Community Bank subject to legal advice and full due diligence.
- (2) Cabinet to agree the amount of up to £100,000 as a potential loan as outlined in this report.
- (3) Cabinet to agree the term (period) of the potential loan.
- (4) Cabinet to give delegated authority to the Section 151 Officer, in consultation with the Cabinet member for finance, assets and community wealth building to enter discussions with Wave Community Bank to agree the terms of the loan and a set of outcome principles and performance targets to be achieved during the term of the loan, which to be presented at a subsequent meeting of this committee before any loan is agreed.

Reasons for recommendations: Wave Community Bank can provide loans to those who otherwise may not be able to access them due to low income or similar issues.

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1 Introduction

- 1.1 Credit unions are self-help co-operatives whose members pool their savings to provide each other with credit at a low interest rate. To be part of a credit union you have to share a common bond with other members. This is something you all have in common such as: living or working in the same area.
- 1.2 Credit Unions offer ethical, affordable loans and savings accounts to people living and working within the community its members reside. Credit Unions offer a variety of products (loans, savings, financial advice) to residents that are often impacted by financial exclusion helping them to combat the detrimental effects of poverty and financial exclusion.

2 Background Information

- 2.1 Wave Community Bank (Wave) is a trading name of East Sussex Credit Union Ltd. It is a not-for-profit co-operative that is owned and controlled by its members. It exists for the benefit of its members, who may be customers, workers, suppliers, or the wider community. It operates for the benefit of people living or working in East Sussex, Brighton and Hove, Kent and Medway. The bank has previously worked with this council, particularly Lewes council tenants.
- 2.2 The bank offers ethical, affordable loans and savings accounts to people in these areas. The Bank was previously known as East Brighton Credit Union and then East Sussex Credit Union and was established in 2000.
- 2.3 The bank is regulated and authorized by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) and savings are 100% guaranteed by the Financial Services Compensation Scheme.
- 2.4 For members of the Community Bank to benefit from the services it provides, there must be sufficient funds available within the Bank. Some of this income is secured through those using the Bank as a savings account, but additional funds may also be needed to ensure ongoing viability.
- 2.5 The bank currently receives financial support from East Sussex County Council, Brighton & Hove City Council as well as some smaller institutions. This is done by way of a subordinated loan to the bank.
- 2.6 A subordinated loan differs from other loans as it has specific terms and conditions. The loan agreement specifically stipulates that 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.
- 2.7 Lewes District Council has been approached to consider if it would invest in the bank and so members of this committee are asked to consider the principle of providing a subordinated loan to Wave Community Bank and subject to that agreement consider the amount the Council will lend.

- 2.8 This would provide a low-risk opportunity to strategically invest in a local, ethical, not-for profit organisation that provides safe, affordable, accessible financial products to some of the district's most financially excluded and at-risk residents.
- 2.9 The council, by agreeing to offer a loan of between £50,000 & £100,000 could assist the Bank, whilst also benefiting residents of Lewes District through additional support aligned to the councils own Community Wealth Building principles.

3 Proposal

- 3.1 Lewes District Council has been approached by Wave to consider if it would invest in the bank via a subordinated loan.
- 3.2 The subordinated loan would be provided for a minimum term of 5 years and 1 day and would be depreciated by the bank over that period so it can be repaid or rolled forward at the end of the term.
- 3.3 Local authorities often invest in credit unions in this way because although forgoing a low interest rate in a bank account, they invest for a social return.
- 3.4 This would provide a low-risk opportunity to strategically invest in a local, ethical, not-for profit organisation that provides safe, affordable, accessible financial products to some of the district's most financially excluded and at-risk residents.
- 3.5 The council, by agreeing to offer a loan would assist the Bank, whilst also benefiting residents of Lewes District through additional support aligned to the councils own Community Wealth Building principles.
- 3.6 Members of this committee are therefore asked to consider the principle of providing a subordinated loan to Wave Community Bank.

4 Outcome expected and performance management.

- 4.1 Typically, in agreeing to the loan Wave and LDC would agree a set of outcome principles and performance targets to be achieved during the term of the loan. Such outcomes and targets could include the following:
- Number of households in the district benefitting from the arrangement
 - Targets for growth in membership
 - Provision of advice and support for vulnerable groups in the district
 - The provision of facilities to support specific Council interests (e.g. Home Energy Retrofit Loans)
 - Encourage residents affected by financial exclusion to access and utilise savings schemes, reducing dependence on high interest lending.
 - Improving access to Wave services for the hardest to reach members.
 - Beneficial impact for council employees with access to specific schemes (e.g. Chorus Workplace Savings Scheme)

5 Corporate plan and council policies

5.1 Support for the Community Bank is in line with the councils' corporate plan priority of Community Wealth Building.

6 Business case

6.1 The work of the credit union sits firmly within the Councils Community Wealth Building ambitions. Such facilities are seen as being increasingly vital during the cost-of-living crisis which is impacting most significantly on some of the most vulnerable people in the district.

6.2 The initial request received by Wave is for a subordinated loan of between £50,000 and £100,000. The level of investment by other Local Authority and other smaller organisations are detailed below:

- East Sussex County Council £150,000
- Brighton & Hove City Council £250,000
- Ringmer Church £10,000
- St Anne's Institute Trustees £30,000

6.3 Any loan to Wave would interest free, therefore LDC would forego any investment income that it could otherwise receive during the period of the loan. For example, a loan of £100,000 based on the current Bank of England Base Rate of 5.25% would result in estimated loss of interest income of £5,250 per annum and would have to be absorbed within the Councils Financing Budget.

6.4 The loan would be subject to an agreement between the council and Wave Community Bank which would include performance management arrangements detailed above.

6.5 Local authorities invest in credit unions in this way because, although foregoing a small return, they invest for a wider social return.

7 Financial appraisal

7.1 LDC have received a request for Wave Community Bank to consider providing a Subordinated Loan of between £50,000 and £100,000. The direct financial implications are detailed in section 6 of this report. The loan would be added to the Councils capital programme and be funded from reserves that are planned to be held by the Council for the next 5 years (e.g. Capital Finance Support Reserve)

8 Legal implications

8.1 The Council has the power to pursue the options identified in the report pursuant to Section 1 of the Localism Act 2011 (the general power of competence).

The proposal not to charge interest may constitute a subsidy pursuant to the Subsidy Control Act 2022 and an analysis will be required against the principles contained in that Act.

Appropriate documentation will need to be put in place to provide the loan and to secure the objectives outlined in this report and to be discussed pursuant to the delegations given in this report.

Further legal advice will need to be taken on the proposals outlined in this report.

9 Risk management implications.

- 9.1 There are risks associated with granting this loan. If Wave were unable to repay the loan the council would need to identify replacement funding to cover the loss in reserves. However, Wave will set aside the annual loan depreciation each year to provide for repayment at the end of the loan period.

The bank is regulated and authorized by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) and concerns of liquidity would be raised by these organisations.

10 Equality Analysis

- 10.1 The Equality and Fairness screen has highlighted that the subordinated loan would have a positive impact on residents as it will enable Credit Unions to offer a variety of products (loans, savings, financial advice) to residents that are often impacted by financial exclusion helping them to combat the detrimental effects of poverty and potentially boost financial resilience.
- 10.2 Wave Community Bank's social impact report sets out its sustainability goals and how it is working to achieve them. In addition, this proposal contributes to the council's own sustainability objectives by enabling council resources to be used to re-invested locally, for the benefit of local people.
- 10.3 The recommendations in this report will enable the council to gain an understanding of Wave clientele, meaning we will gain a picture of which groups are likely to benefit the most.

11 Environmental sustainability implications

- 11.1 There are no immediate specific environmental impacts associated with this report, however, the opportunity for the provision of facilities to support specific Council interests (e.g. Home Energy Retrofit Loans) means that there is a potential beneficial environmental impact.

12 Contribution to Community Wealth Building

- 12.1 This report contributes to the council's Community Wealth Building policies through its workstream of making financial power work for local places. Within the council's current action plan there is a commitment to learning from the pilot

work around community energy projects to consider future investment opportunities. Wave Community Bank provides such a potential opportunity.

13 Appendices

Appendix A – Informal Cabinet Question Responses – Wave Community Bank
Appendix B – Wave Community Bank LDC Presentation

14 Background papers

The background papers used in compiling this report were as follows:

- Wave Community Bank website [Home - Wave Community Bank \(wavecb.org.uk\)](http://wavecb.org.uk)
- Wave Social Impact report [WAVE IMPACT REPORT A4 12pp\(4\) \(wavecb.org.uk\)](http://wavecb.org.uk)
- LDC Community Wealth Building action plan [Community Wealth Building update - Appendix 1 \(lewes-eastbourne.gov.uk\)](http://lewes-eastbourne.gov.uk)