

## WILTSHIRE COUNCIL

### CABINET

26 JANUARY 2010

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#### ACTION FOR WILTSHIRE – WILTSHIRE FINANCE INITIATIVE

**Cabinet member:** Councillor Jane Scott, Leader of the Council

##### Executive Summary

The purpose of this report is to seek Cabinet approval for the Council's participation in a Wiltshire Finance Initiative. The initiative is designed to address market failure in terms of the availability of affordable credit to individuals and small businesses in Wiltshire, an issue highlighted in the Bright Report published in March 2009. Following the publication of the report, a partnership group led by the Council put together plans to address this issue through the 'Action For Wiltshire' programme. However, hitherto, it has not been possible to proceed due to the lack of capacity and limited funding.

An opportunity has now emerged to draw down funding from the Department of Work & Pensions (DWP) to provide affordable credit for individuals. In addition, the Fredericks Foundation has come forward, offering a potential solution to the problem of access to affordable credit for businesses.

Cabinet members are being asked to approve expenditure that would:

- Build capacity within the Wiltshire credit unions to enable the drawing down in the region of £400,000 of funding from the Department of Work & Pensions (DWP) to set up a **Growth Fund** to be used for personal lending.
- Enable the Fredericks Foundation to establish a **Small Business Loan Fund** of £200,000 in Wiltshire with the potential to grow to £400,000.

The setting up of a Wiltshire Advisory Board would enable the Council and other stakeholders to oversee the management and marketing of these initiatives and maximise the prospects of success. The liability to address default in loan repayments would not rest with the Council.

## **Proposal**

**That Cabinet:**

- 1. agrees to support the Growth Fund by:**
  - a) funding a capped amount towards the revenue costs associated with the delivery of the Growth Fund amounting to £42,000 over two years;**
  - b) offering pro bono office space including access to private meeting rooms for use by the Credit Unions;**
  - c) exploring the extension of Credit Union membership to staff;**

**This support would be subject to the success of the current bid to DWP.**

- 2. agrees to support the Fredericks Foundation Small Business Loan Fund by:**
  - a) approving revenue expenditure of £42,240 towards the costs of a Wiltshire loans officer working 4 days per week over 2 years.**
  - b) approving a loan of £100,000 to match GWE funding and establishing the Small Business Loan Fund.**
- 3. agrees to the setting up of a Wiltshire Advisory Board to oversee these projects and enable the delivery of a comprehensive package of financial inclusion measures as part of a comprehensive Financial Inclusion Strategy**

## **Reason for Proposal**

- By supporting the Growth Fund, the Council would not only help to attract substantial DWP funding for personal lending in Wiltshire but also the Council would be contributing to an improvement in financial literacy, provide an alternative to costly door step lending and help to build a single credit union in Wiltshire. The Council's involvement would also help to introduce this new service to those that approach the Council for help with the management of personal finances e.g. Council Tax and Housing Benefit claimants etc.
- The establishment of the Small Business Loan Fund would address a major problem faced by small businesses i.e. the availability of credit. Each year, it is expected that the fund would provide up to £5000 each to 15 businesses with the result that 28 new jobs would be created with an estimated saving of £50,000 - £75,000 in benefits to the public purse.
- Overall, the Wiltshire Finance Initiative would assist in building more resilient communities and help to secure economic recovery.

**ALISTAIR CUNNINGHAM, DIRECTOR OF ECONOMY & ENTERPRISE**

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**ACTION FOR WILTSHIRE - WILTSHIRE FINANCE INITIATIVE**

**Cabinet member:** Councillor Jane Scott, Leader of the Council

**1. Purpose of Report**

The purpose of this report is to introduce members to the Wiltshire Finance Initiative and seek their support for expenditure that would help to address market failure in terms of access to affordable credit by individuals and small businesses in Wiltshire.

**2. Background**

The Bright Report published in March 2009 highlighted this problem. Following the publication of the report, a partnership group led by the Council put together plans to address this issue through the 'Action for Wiltshire' programme. However, hitherto, it has not been possible to proceed due to the lack of capacity and limited funding.

Dealing with this issue has been given added impetus following Wiltshire Assembly's annual conference in October, when the Assembly identified three top priorities, two of which are relevant to this report including creating an economy that is fit for the future and tackling disadvantage and inequalities.

**Access to credit for individuals**

Currently, in terms of credit for individuals, help is available from Wiltshire Moneyline, an initiative funded by DWP Growth Fund monies and which provides affordable personal loans (a flat rate of 24% plus a 2% administration fee). The service is provided through a sub-contract arrangement with South Coast Moneyline by Community First working in conjunction with four local credit unions. However, this is a small initiative that supports savers only and has a limited impact supporting the delivery of an average of 250 loans per annum in Wiltshire. This is in part a reflection of the lack of capacity within the credit unions and the fragmented nature of the effort. The arrangement with South Coast Moneyline ceases in March 2011.

Officers have been working with partners in the Wiltshire Money Partnership including Community First, credit unions, registered social landlords and the Citizens Advice Bureaux to explore how the problem of doorstep and pay day lending at extortionate interest rates and capacity issues within the credit unions can effectively be addressed.

The problem around doorstep lending is summed up in the following quote from a report by senior managers at a local housing association:

"Since offering Wiltshire Moneyline office space they have lent our tenants over £11,000 at 26%APR. If all this money had been lent to our tenants by the Provident

(272.2%APR) and paid back over 1 year that would have taken an extra £20,131 out of our communities. If this money had been lent out by paydayUK (1737%APR!!) this would have taken out an extra £189,465 out of our communities. Assisting with offering growth fund loans will have a similar, but wider, positive impact.”

An opportunity has emerged to draw down in the region of £400,000 from DWP to set up a **Growth Fund** that has the potential to extend the reach of schemes such as Wiltshire Moneyline and address the capacity issues identified earlier. A bid was submitted on 8 January.

### **The availability of credit to businesses**

In the current marketplace, banks are facing a range of competing pressures. Credit is harder to obtain and the cost of borrowing has not fallen directly with the cuts to the base rate. This is proving to be a problem for small businesses across Wiltshire.

The Fredericks Foundation is a charity that helps disadvantaged people to set up, or expand their own business as a means to achieve financial independence while rebuilding their confidence and self esteem. It has an established mechanism for delivering small loans to viable businesses experiencing difficulties in accessing credit. This business support model appears ideally suited to Wiltshire and is already in operation in Gloucestershire and certain parts of the South East. The Fredericks Foundation has been in negotiation with officers from the Council, GWE Business West Limited and Swindon Borough Council with a view to extending their services to Wiltshire & Swindon.

## **3. Main Considerations for the Council**

### **Growth Fund**

**Support by the Council for the Growth Fund would help to lever in the region of £400,000 from DWP and enable the delivery of 800 personal loans across Wiltshire at an APR of 25.36% with no administration fee but a £2 joining fee.**

The key to unlock this funding is the commitment to helping to meet the operating costs in managing the programme in the short to medium term (years 2 and 3).

DWP would provide funding to cover operating costs in Year 1.

However, additional financial support is needed on a deficit guarantee basis to cover the appointment of staff and marketing of the Fund. **This work would be designed to help improve financial literacy especially amongst those that have experienced difficulty in accessing credit and are at risk of doorstep lenders. Whatever capital has been lent by March 2011 remains within Wiltshire to support future access to credit and build the capacity of the credit unions, a key Action for Wiltshire objective.**

**The Council's support is also needed to help to:**

- bring together the various intermediaries both within and outside the Council that provide financial advice and direct financial support to those that experience difficulties in accessing credit to **maximise the profile of the Growth Fund and its impact on the ground.** Such intermediaries include the various Council Tax

and Housing Benefit advisors, social workers, volunteers within the CABs, credit unions etc.

- **establish an Advisory Board that can bring together the necessary management expertise to ensure the success of the initiative including building the capacity of the credit unions to take over future loan delivery using retained Growth Fund capital.** Already, there is a drive to merge credit unions to create this capacity. Very recently, the North Wilts Credit Union obtained permission from the Financial Services Authority to extend its common bond to include all people living in Wiltshire; through the proposed Wiltshire Advisory Board, the Council can help provide the drive to secure further progress. In the first instance, Community First will take responsibility for managing the fund but the aim is that as credit union capacity is built, Community First will withdraw. Currently, Community First is the only organisation that has the necessary licenses to undertake this work. This proposal will help to build the necessary critical mass to enable the credit unions to perform the role that was envisaged in the Bright Report.

### **Fredericks Foundation Small Business Loan Fund**

On the basis that Wiltshire Council supports this Fund, it will be possible to lever in £100,000 to cover Wiltshire and Swindon from GWE Business West Limited through a loan agreement with Fredericks Foundation. The Foundation will invest an additional £30,000 of its own capital in the first instance to pump prime the initiative. An additional £100,000 capital is sought from Wiltshire Council through capital on receipt. The Fredericks Foundation will also support efforts to secure additional loan capital to match fund the local loan fund so there is the potential to secure an overall fund of £400,000 capital for business loans across Wiltshire and Swindon. The APR is expected to be 13.95%.

The revenue costs and income associated with managing the operation are based on the Client Manager working out of Wiltshire Council offices for free. The proposal is that the Client Manager will work 4 days per week across Wiltshire and Swindon with the costs and time worked shared pro rata with Swindon Borough Council. Two years revenue funding is sought at this time to facilitate appointment of a suitable Client Manager. The second year of funding will be on a deficit guarantee within defined limits to cover the costs of employment costs above the revenue generated.

#### **The benefits of this involvement include:**

- **Supporting viable existing and start-up businesses initially denied access to credit from the mainstream banking system**
- **Creating new jobs and self employment as well as safeguarding existing jobs**
- **Reducing the reliance on state benefits and Council services by beneficiaries**
- **Unlocking bank finance as a result of the sharing of financial risks**

**Based on experience elsewhere, specific benefits per £75,000 loaned from the Wiltshire Pot (based on 15 loans of £5,000 each) will be:**

- **£25,000 in loans levered in from banks to businesses**

- **9 existing businesses supported creating 20 jobs**
- **6 start-up businesses created supporting 8 jobs**
- **5 of the 28 jobs created would be people coming off benefit with a combined saving of £50,000-£75,000 per annum in benefits**

The Wiltshire Advisory Board referred to earlier would also play a role in overseeing the management of this fund as well as raising additional loan capital and as a member of that Board, the Council would influence the development of lending policy and marketing of the project. The development of a comprehensive Financial Inclusion Strategy to be taken forward in conjunction with Wiltshire Money would help to build on the Wiltshire Finance Initiative and work towards meeting the financial inclusion agenda for Wiltshire.

#### **4. Environmental Impact of the Proposal**

The proposal is unlikely to have any significant environmental impacts. Through the proposed Wiltshire Advisory Board, the Council would be in a position to influence lending policies to ensure that there is no negative impact on Wiltshire's environment.

#### **5. Equalities Impact of the Proposal**

The proposal is designed to address inequalities and disadvantage through improving access to credit and improving financial literacy.

#### **6. Risk Assessment**

**If the proposed decision is not taken:**

##### **Growth Fund:**

- A major risk that DWP will not provide funding owing to a lack of capacity to sustain the project beyond Year 1 leaving Wiltshire without external funding for affordable personal loans beyond March 2011.
- A moderate risk that the credit unions will not merge into a single credit union for Wiltshire leaving the county with a fragmented delivery of loans and saving schemes and financial advice affecting loan delivery and financial literacy

##### **Fredericks Foundation Small Business Loan Fund:**

- A major risk that Fredericks Foundation will not extend their services to Wiltshire with an impact on the availability of affordable credit for small businesses and the loss of match funding from GWE.

In turn, there would be moderate reputational risks to the Council given its leadership of the 'Action for Wiltshire' programme and its commitment to addressing the impacts of recession.

## If the proposed decision is taken:

### Growth Fund:

- A risk of default losses estimated to be 15% which is in line with provision of this kind. These losses would not be carried directly by the Council but by Community First. This risk will be managed through appropriate advice to beneficiaries and recovery through debt collection agencies.
- A minor risk of not delivering loans to target. If Community First falls short in Year 1, this would impact on the amount of interest earned to contribute towards the operating costs of the fund in Year 2. However, if the target for Year 1 is not met, there would be more capital to loan out in Years 2 and 3. This risk will be managed by setting up the proposed Wiltshire Advisory Board to assist with the management and marketing of the fund. It will also be necessary to ensure that other sources of funding are explored to help fill gaps where necessary.

### Fredericks Fund Small Business Loan Fund:

- A risk of default losses estimated to be 20% which is acceptable. These losses would be managed by the Fredericks Foundation. This risk will be managed through appropriate business advice to beneficiaries involving a range of agencies including Business Link where necessary and recovery through debt collection agencies. The Advisory Board will be tasked with assisting to raise funds to help offset the default including the targeting of large corporates including those in Swindon.
- A risk of not raising target levels of income due to a lack of take up of the loans. Again, the work of the Wiltshire Advisory Board will help to address such a risk.

## 7. Financial Implications

Subject to the risks identified above, the financial implications for the Council are as follows:

### Growth Fund

Revenue	2010/11	2011/12	2012/13	Total
Expenditure	-	£21,000	£21,000	£42,000
Income	-	-	-	-
Balance	-	£21,000	£42,000	£42,000

### Fredericks Fund

Revenue	2010/11	2011/12	Total
Expenditure	£28,746	£13,494	£42,240
Income	-	-	-
Balance	£28,746	£13,494	£42,240

The £100,000 loan from the Council during the 2010/11 financial year, to help lever in the GWE and Fredericks Foundation funding will be provided from reserves. This loan has already been factored into the budget calculations for 2010/11 as has the £28,746 costs in relation to the Fredericks Fund. Subsequent years' costs for the

Growth Fund and Fredericks Foundation fund will need to be incorporated into the budget calculations for 2011/12 and 2012/13.

Discussions have taken place with Martin Donovan who supports this approach and has provided the above wording.

### **Assumptions – Growth Fund**

**The Growth Fund is subject to approval and subsequent negotiation following the bid to DWP. Below are the assumptions made on the basis of the submitted bid.**

- Repayment of loans would be over 12 months
- 25% of the interest received annually is returned to the Growth Fund.
- All capital repaid will be returned to the Growth Fund
- A default rate of 15% has been estimated.
- Year 1:
  - Subject to the outcome of negotiations, DWP would cover the first year operating costs of the Growth Fund that are estimated to be £121,000
  - Future Jobs Fund monies would be used to cover the cost of the Admin Assistant (£14,500) and as required by Community First
  - No contribution would be required from Wiltshire Council to help meet the operating costs
- Year 2:
  - 75% of interest received in Year 1 and 2 would be used as a contribution towards meeting the operating costs. Interest earned is estimated to be £61,000.
  - This together with the Council's contribution (£21,000) brings the total revenue funding to £82,000.
  - Currently the assumption is that £21,000 would be contributed by the Council in Year 2. However, depending upon performance in Year 1, it may be necessary to use the recommended total contribution by the Council in Years 2 and 3 of £42,000.
- Year 3:
  - 75% of interest received in 3 would be used as a contribution towards meeting the operating costs. Interest earned is estimated to be £46,000.
  - £21,000 would be contributed by the Council in this year to help meet operating costs bringing the total revenue funding to £67,000.
- Should the scheme close before the end of Year 2, the loan pot would remain in Wiltshire to enable further loans to be made in the future.

### **81. Legal Implications**

Contracts with Fredericks Fund and Community First will need to be entered into. These will be developed with Legal & Democratic Services and signed off by Ian Gibbons, Head of Legal & Democratic Services.



## **9. Options Considered**

The Council could consider treating the Growth Fund and Fredericks Fund Small Business Loan Fund as separate schemes and indeed could operate independently. However, this would not have the same impact as in this scenario, the only beneficiaries would be the beneficiaries supported. By bringing the two schemes together under the influence of the proposed Wiltshire Advisory Board, there is an opportunity to build a critical mass in terms of not only expertise but also the potential to raise additional external funding. The Board would also work in conjunction with Wiltshire Money to develop a comprehensive Financial Inclusion Strategy and work towards meeting the financial inclusion agenda for Wiltshire. The potential is clear to see from the diagram shown in Appendix 1 showing the relationship between the proposed Wiltshire Advisory Board and other partners.

## **10. Conclusions**

This initiative is a crucial step towards addressing the problems identified in the Bright Report regarding not only the access to credit for individuals and businesses but also the need to build the capacity of the credit unions in Wiltshire. Whilst the funds and the risks associated with their management are held by other partners, it is the financial contribution that the Council can make to the initiative and the role of the Advisory Board that provides Wiltshire Council with an opportunity to drive forward the financial inclusion agenda in Wiltshire.

## **Alistair Cunningham, Director of Economy & Enterprise**

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## **Background Papers**

The following unpublished documents have been relied on in the preparation of this report: Wiltshire Finance Initiative Project Brief

## **Appendices**

Appendix 1: Wiltshire Advisory Board

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