

Falkirk Council

Title: Towards a Community Development Finance Institution
Meeting: Executive
Date: 16 August 2016
Submitted By: Director of Corporate and Housing Services

1. Purpose of Report

- 1.1 The purpose of this report is to seek approval to tender for a Community Development Finance Institution (CDFI) in partnership with Fife and West Lothian Councils.

2. Recommendations

- 2.1 It is recommended that the Executive agree that –

- 1) Officers seek to tender for a Community Development Finance Institution solution in conjunction with their counterparts in Fife and West Lothian;
- 2) Officers will engage with key stakeholders e.g. Banks, Scottish Government with regards to seeking any required loan capital; and
- 3) The outcome of these discussions and the tender process is reported back to the Executive in late 2016 for a decision on proceeding to delivery.

3. Background

- 3.1 A Community Development Finance Institution (CDFI) is a service that offers borrowing and money advice to low income, high risk groups who would otherwise use higher cost alternatives. Tackling poverty and achieving better outcomes for households on low incomes is a key policy intention of Falkirk, West Lothian and Fife Councils. This project hopes to reduce the risk to that strategic aspiration posed by non-standard private lenders. This project has also been scoped and aligned to take forward key recommendations detailed in the Council's Corporate Plan, with regards to financial inclusion. In addition "Towards a Fairer Falkirk" states we will tackle the root causes of poverty with our key aims to:

- Reduce the levels of debt across the population and maximise the income of households who rely on benefits; and
- Increase the financial choices available to our population and increase people's understanding of the consequences of financial choices.

- 3.2 Falkirk, West Lothian and Fife Council are exploring the option of establishing CDFI arrangements. There was a shared understanding that the scale of a CDFI required to be financially sustainable beyond the size of any one of our local authority areas. Members will recall that the previous discussions with two other councils on establishing a CDFI fell through.
- 3.3 A small steering group was formed of senior Elected Members and chief officers from the three local authority areas. The Leader of the Council represented Falkirk Council in these discussions. This steering group received an initial feasibility study commissioned by the three Councils and requested the development of a more detailed business case.
- 3.4 Development of a CDFI was considered by the Executive in May 2014, within “Towards a Fairer Falkirk” and as part of a comprehensive approach to financial inclusion. This led to the feasibility study undertaken by IS4 consultants which was concluded in May 2015 and the decision by the Steering Group agreed to move to detailed Business Case.
- 3.5 The Business Case considered the robustness of the initial feasibility study, re-examined the benefits and risks of establishing a CDFI operation, and set out the detail needed to support a tender process for a CDFI.
- 3.6 The key benefits and risks associated with a CDFI, from the feasibility study and business case, include:

Benefits

- Increasing support to vulnerable residents thereby helping them out of debt;
- Reducing social inequality through promoting wider access to financial services;
- Lower lending rates than the for profit sector. Whilst APR rates are high reflecting high risks and need for the model to be viable and sustainable, they are considerably lower than alternatives such as the Provident or ‘pay day’ loans companies; and
- Increasing access for residents to affordable credit, thus reducing the probability of defaults on rent/Council Tax and the build-up of arrears to Councils.

Risks of not developing a CDFI

- Financial exclusion for residents through lack of access to affordable credit and financial support;
- Increased poverty and associated impact, particularly on children;
- Personal indebtedness levels and the associated negative impacts on health and well-being;
- Pressure on debt crisis services because of crisis arising from non-standard lenders; and
- Leakage of money out with the local economy.

- 3.7 There are risks to the Council in establishing a CDFI, mainly around the provision of loan capital, i.e. providing the money that is lent to high risk borrowers.

- 3.8 Fife and West Lothian Council Members will be asked to take forward the CDFI initiative when they meet in August 2016. If either or both of these Councils do not approve this initiative, officers will report back to the Executive outlining the consequences and potential way forward for this project.

4 CDFI

- 4.1 Work has been done over a number of years to explore the personal lending sector in the Falkirk Council area to understand how and why people borrow money, to understand the cost of borrowing and how the cost, risk etc of borrowing for vulnerable individuals can be reduced. Members will be aware of the work the Council has undertaken to support local credit unions to offer alternative saving options. Alongside and complementary to that, officers have been working with other Councils to examine alternative forms of lending i.e. Community Finance Development Institutions (CDFI).
- 4.2 These organisations, i.e. CDFIs, focus on lending to low income households, offering an alternative to non-standard high cost lenders e.g. payday loan companies etc, by providing loans alongside additional support and advice on issues such as money management, benefits etc. These services link with more specialist support from other agencies to give a more rounded and specialist support service.
- 4.3 Many households need access to small amounts of money, for example in a crisis, that banks won't issue (loans under £1,000). Although credit unions offer this facility, there are specific criteria around loans, for example saving for 8 weeks prior to loan to build up a credit union history and credit checks.
- 4.4 The CDFI while lending at a higher rate than high street banks can offer a quick approval of loans to higher risk groups given the support that is also offered. In areas such as Glasgow where a CDFI currently works (Scotcash), the default rate on loans is low.
- 4.5 The three Councils aim to deploy a similar model to that provided by Scotcash. Scotcash provides a financial inclusion service with clients accessing advice and support in one place, helping individuals to re-negotiate debts and claim benefits. It works closely with Glasgow Central CAB, provides money advice, energy advice, foodbank vouchers, opens basic bank accounts with RBS and Barclays and savings accounts with Bank of Scotland and also links in with the three Glasgow based Credit Unions. This allows people who previously have not been able to access either basic bank accounts or credit union loans to move onto those more traditional services over time.

5 CDFI Model

- 5.1 CDFIs usually allow people to apply for loans face to face, over the phone or on-line. Based on the Scotcash model, the lowest loan amount is usually £50, with an average loan amount of £464.

Applicants need to provide proof of identification and recent bank statements to allow their application to be considered. CDFIs typically aim to provide a response to the applicant within two working days.

- 5.2 Locally it is proposed that the provider will open a town centre shopfront location in Falkirk which would have advice staff working alongside lending staff. The location could be on existing premises or indeed in conjunction with a partner organisation.
- 5.3 It is anticipated that the successful provider will provide approximately 8,000 to 12,000 loans each year across the three Council areas. To provide this an initial capital injection of between £300k and £550k may be required as an initial loan fund. This is not all required at the outset i.e. April 2017, but will be spread across the first three years of operation. In assessing providers, it is important that any risk to the Council is minimised. The three Councils will therefore engage with banks, the Scottish Government and other funders to try to fund this loan capital separately. Some potential providers may provide their own loan capital.

6. Considerations

- 6.1 In Falkirk nearly 43% of households have an income of less than £20k with 30% being below £16k.
- 6.2 The areas with the highest concentrations of income-deprived households are shown below (with % of households estimated to be income-deprived):

Bainsford and Langlees	30%
Camelon East	26%
Camelon West	25%
Hallglen and Glen Village	21%
Stenhousemuir West	20%

7. Consultation

- 7.1 An initial report was commissioned by Falkirk, Renfrewshire and West Dunbartonshire Councils. The findings of this were reported to Members in February 2014. A feasibility study was then commissioned by Falkirk, Fife and West Lothian Councils; the previous two Councils having decided for a variety of reasons not to proceed at that time. The resulting report was made available to officers of the three Councils in May 2015, who then reported on this to the steering group. Both these reports were informed by consultation with various stakeholders e.g. credit unions etc.

8. Implications

Financial

- 8.1 This is a key area for consideration. While the report is not seeking approval to commit funding at this point, there is a need to recognise that resources are required to set up a CDFI. This includes covering running costs in the early years of its establishment and sourcing capital to act as its lending resource. Access to lending capital and CDFI sustainability are strongly connected.
- 8.2 The table below sets out the key cost of the CDFI and the potential costs for each area. It notes the ongoing revenue implications for each Council and also the loan capital investment required in each area.

Cost break-down

Item description	One-off cost	Annual Recurring cost	Funding source	Funding available
CDFI Loan Capital – to be explored	£400,000	N/A	To be explored	
<i>Fife share</i>	<i>£200,000</i>			
<i>Falkirk share</i>	<i>£100,000</i>			
<i>West Lothian share</i>	<i>£100,000</i>			
CDFI Service Set-up/Provision	£200,000	£135,000*	Fairer Falkirk Fund	Capital: No Revenue: Yes
<i>Fife share (2 physical sites)</i>	<i>£100,000</i>	<i>£55,000*</i>		
<i>Falkirk share (1 physical site)</i>	<i>£50,000</i>	<i>£40,000*</i>		
<i>West Lothian share (1 physical site)</i>	<i>£50,000</i>	<i>£40,000*</i>		
<u>Project Totals</u>	<u>£600,000</u>	<u>£135,000*</u>	Capital – for one off cost Revenue – for recurring cost	Capital: No Revenue: Yes
<i>Fife share</i>	<i>£300,000</i>	<i>£55,000*</i>		
<i>Falkirk share</i>	<i>£150,000</i>	<i>£40,000*</i>		
<i>West Lothian share</i>	<i>£150,000</i>	<i>£40,000*</i>		

- 8.3 In summary we would anticipate to contribute £50k in 16/17 and £40k thereafter for three years. This amount is already budgeted for in the Fairer Falkirk Fund as agreed by the Executive in May 2014. In addition there will be discussions with external stakeholders with regards to the potential provision of loan capital investment. These discussions will take place at the same time as the tender process if the Executive agrees with the recommendations.

Resources

- 8.4 Council Officers will continue to support the development of the model, along with providing monitoring of the project as per the Following The Public Pound arrangements.

Legal

- 8.5 Nil.

Risk

8.6 There are risks in this initiative:

- The provision of loan capital - we aim to transfer the risk of provision of loan capital by funding this separately via a different source;
- No supplier comes forward at the tender stage - we will reduce the risk of not getting a supplier at the tender stage by working with Fife and West Lothian to ensure that the invitation to tender is likely to be of interest to potential CDFI providers; and
- Fife or West Lothian Council does not agree to progress - should either Council decide not to approve this initiative, officers will report back to the Executive outlining the consequences and potential way forward for this project.

Equalities

8.8 An EPIA is being completed and will be reported back once the outcome of the tender is known.

Sustainability/Environmental Impact

8.9 No impact.

9. Conclusions

9.1 The provision of a CDFI across Falkirk, West Lothian and Fife will complement existing money management services, including credit unions and wider support services in these geographic areas; and offers a competitive, socially responsible alternative to non-standard lenders for our most vulnerable residents.

9.2 There is, as mentioned, an allocation of £50k in the Fairer Falkirk Fund to cover the set-up costs and thereafter annual running costs of a CDFI provision. There is a risk in the provision of loan capital. Officers are seeking to minimise the risks for Councils by approaching a variety of institutions with regards to providing the initial loan capital. This will include approaching banks and the Scottish Government. These options will be investigated in parallel with the procurement process. It is anticipated that the procurement stage will be completed by the end of the year.

- 9.3 If the Executive agrees to proceed to tender, and the other two Councils agree to proceed, then it is anticipated that a report on the outcome of the tender and loan fund discussions will be submitted at the end of the year. If suitable arrangements are approved then it is hoped that a CDFI will be up and running in the spring of 2017.

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Date: 8 August 2016

APPENDICES

None

List of Background Papers:

The following papers were relied on in the preparation of this report in terms of the Local Government (Scotland) Act 1973:

- IS4 Feasibility Study