

NORTHUMBERLAND

Northumberland County Council

CRAMLINGTON, BEDLINGTON AND SEATON VALLEY LOCAL AREA COUNCIL

17 JANUARY 2017

NORTHUMBERLAND COMMUNITY BANK

Report of: Director of Planning and Economy

Cabinet Member: Nick Oliver, Cabinet Secretary and Corporate Services

Purpose of report

To showcase the financial products and services of the Northumberland Community Bank that are available to all residents.

Recommendations

The Local Area Council is asked to welcome the work of the Northumberland Community Bank and to consider how best to support the promotion of its financial products and services.

Key Issues

The Northumberland Community Bank offers a range of ethical financial service products that includes access to affordable credit and promotes good financial management.

This briefing note will be supplemented at the LAC meeting with a presentation from Lauren Langton, the Chief Executive of the Community Bank.

BACKGROUND

- 1.1 Northumberland Community Bank (NCB) was formed by the merger of existing entities Tynedale Community Bank (TCB) and The Credit Union for South East Northumberland (CUSEN) in April 2017. It was formed by leveraging off TCB's strong governance and management expertise and CUSEN's existing status and knowledge which allowed short cuts too many of the time consuming and expensive processes that new banks have to go through. In the fullness of time the joint bank is expected to grow to cover the whole of Northumberland, for which it already has a Financial Conduct Authority Common Bond.

Context

- 1.2 Northumberland faces significant financial inclusion challenges that have a disproportionate impact on our most vulnerable and disadvantaged communities.
- 1.3 Recent and current social inclusion projects indicate that there are areas of acute need in the most deprived wards. For example, a project researching support needs amongst the cohort of welfare benefits claimants that would be moving across to Universal Credit indicated that 75% of study participants had medium or high financial inclusion support needs, which in the main focused around support to budget, access to affordable credit products and access to basic bank accounts, with a heavy reliance on very high cost credit from organisations like Wonga and Brighthouse.
- 1.4 Evidence from current projects supporting those furthest from the labour market reinforce these findings, suggesting that financial issues are a considerable impediment in seeking employment or accessing training. We are also aware from work with NETs (Northumberland Emergency and Transition Support, the Council's Crisis Welfare Support Scheme) that there is a prevalence of both legal (the Provident) and illegal (loan sharks) debt management reliance in some of the county's most deprived wards.
- 1.5 Additionally during 2018 Northumberland is scheduled to be one of the last areas to implement the roll out of Universal Credit and it is estimated that up to 30% of claimants may not have ready access to a bank account
- 1.6 Individuals facing these straitened circumstances are far from the core clientele of the major high street banks, so organisations such as community banks and credit unions offer a vital alternative to high cost loans and and illegal lenders.
- 1.7 Central to responding to this challenge therefore is the continued availability of Credit Union facilities as an alternative for those residents who cannot access High Street bank accounts to high cost or illegal money lenders.

Northumberland Community Bank Objectives

1.8 The NCB provides access to affordable loans, avoiding loan sharks and payday lenders. It aims to:

- Provide customers with access to sustainable, affordable finance;
- Provide basic financial advice and signpost applicants who have not been able to gain affordable credit to other organisations as appropriate;
- Support customers in building a credit history;
- Support customers who are currently unbanked;
- Promote savings accounts;
- Engage with local companies to offer savings and loan services for all with the aim to specifically help the “in work poor” through payroll deduction;
- Engage with schools to educate young people about the benefits of managing money better.

1.9 The NCB uses the deposits of savers to provide the affordable loans. Loans are usually small amounts of up to £500 and are typically repaid within 6 months. The deposit amounts are also made up of private donations.

1.10 The NCB objective is to achieve a sustainable business model within 5 years. In order to achieve this NCB needs approximately £1,100,000 of deposits and £1,000,000 of loans owing at any one time. This is a significant increase compared to the current loan portfolio of £320,000 of loans and £300,000 of deposits. The level of deposits and loans outstanding at any one time is governed by the Financial Conduct Authority who specify minimum operational ratios that must be maintained in order to operate as a credit union. The ratio must be at least 5% capital to loan ratio and 10% of the loan book available in liquid assets.

1.11 In order to achieve these goals NCB will target a different audience than that of a normal “credit union”. Specifically, depositors, who would never have the need to borrow from the NCB; and, borrowers, some of whom could go elsewhere for their loans but choose to use the NCB. Lending money to this market should be less risky and will also assist in reaching lending and income targets.

Next Steps

1.12 Over the coming months, the portfolio and reach of the Community Bank will continue to evolve and grow with the next immediate steps being:

- the formal Launch of Northumberland Community Bank
- exploring the adoption of “linked” bank account
- addressing and improving IT and Management processes

- having a concerted drive to increase both the Bank's savings balance and its loan numbers
- extensive promotion of its services, including to County Council and NHS staff

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