



DERBY CITY COUNCIL

## COUNCIL CABINET 5 APRIL 2005

### Report of the Community Regeneration Commission

# ITEM 9

## Derbyloans

### RECOMMENDATION

1. To reaffirm to Council Cabinet, and request its acts upon, the Commission's previous recommendation 14 from Report 1362: Community Based Finance Institutions:

Members conclude that a loan book of £2m can only be achievable in the long term and that external support for running costs may always be necessary; b) the City Council and other partners should anticipate a need to contribute for a minimum range of 7 to 10 years; c) if specific legislation may be inadequate the City Council should invoke the wellbeing powers in the Local Government Act 2000 to achieve this.

### SUPPORTING INFORMATION

- 2.1 Report 1362: Community Based Finance Institutions was the first topic review completed by Derby City Council's new overview and scrutiny function. Chaired by former Cllr Leatherbarrow, then Deputy Leader of the Conservative, the Commission pioneered the evidence-based approach and its report achieved cross-party agreement about the desirability of establishing a community bank to tackle social and financial exclusion.
- 2.2 Derbyloans was set up as a completely independent organisation with decision making by its Board. Therefore most of the recommendations were effectively advisory. Since the review was completed in autumn 2002 the Commission has received update presentations on the company's development, visited its premises and made further recommendations to Council Cabinet on how the Council could financially assist Derbyloans. On 8 March 2005, Mr Andrew Baker, Chief Executive, again attended the Commission meeting and gave a presentation on current activity levels, developments and issues facing Derbyloans. Also before the Commission was a report, prepared by the overview and scrutiny co-ordination officer, giving an update for each of the original report's twenty recommendations.

- 2.3 Members were pleased with the very considerable progress of Derbyloans, which Mr Baker described as a semi-matured organisation. Cumulative personal lending was approaching £300k and a further total of £100k had been lent to businesses. Members were disappointed to hear that Council support had been lower than might reasonably been expected given the history of the initiative. However, Derby Homes had provided funding. The Director of Policy informed the meeting that £15,000 a year for 2005/06 and 2006/07 was to be given to by the Council to Derby Homes, on top of its normal management fee, specifically to allow personal loans to be made to Council tenants.
- 2.4 The Commission wishes to remind Council Cabinet that the origin of Derbyloans lay in detailed research into financial exclusion across Derby, undertaken by the City Council in partnership with the Derbyshire Building Society and Walbrook Housing Association. That research had involved interviewing local organisations including building societies, housing associations, City Council departments and voluntary sector agencies offering debt advice. A 16 page had resulted, in turn leading to a Visioning Day and the subsequent creation of Derbyloans.
- 2.5 The Commission had particular regard to the update to its recommendation 14. In October 2002 this had read, with key words **in heavy text**:

Members conclude that a loan book of £2m can only be achievable in the long term and that **external support for running costs may always be necessary**; b) **the City Council and other partners should anticipate a need to contribute for a minimum range of 7 to 10 years**; c) if specific legislation may be inadequate the City Council should invoke the wellbeing powers in the Local Government Act 2000 to achieve this’.

This recommendation had resulted from the Commission being informed that Derbyloans was “expected to be self-financing on a loan book of £2m”. However, the Commission had made a different assessment. That appears to the left in the box below whilst the latest reported position appears to the right:

**Original Report para 8.8 October 2002**

It may be that a plateau ratio of running costs to loan book size is the most that can be achieved. The figure of 50% to 70% was suggested.

**Update Report 8 March 2005**

The Derbyloans Board believe that by the end of 2006 60% of operating costs will be funded by loan repayments. This is expected to be a plateau and therefore means of funding the 40% annual shortfall are being considered.

- 2.6 The Commission holds a concern that the lack of financial backing from the City Council may have denied Derbyloans the opportunity to lever in other funding, as the organisation has not been able to say to third parties that the Council’s words have been backed by deeds.

- 2.7 On 16 December 2003 Council Cabinet had received, but did not accept the Commission's advice:

That the City Council be prepared to act as guarantor for a £50,000 overdraft facility to be arranged between Derbyloans and one or more commercial banks, for an initial period up to December 2004

which, if agreed, may have enabled other funds for onward lending to be accessed without a direct cost to the Council.

- 2.8 The present and future need to contribute to overheads does not *necessarily* mean cash and nor does the Commission mean that the City Council should be *alone* in supporting Derbyloans. Moreover, the Commission extends its thanks to bodies like Derwent Living which have demonstrably backed Derbyloans with actions. However, the Community Strategy is a Partnership-owned document and all the partners should take steps to realise the objectives. The City of Opportunity objective one is 1.b) is 'to reduce poverty and financial exclusion'. The Commission expresses the hope that Council Cabinet will relay these sentiments to the Partnership membership.
- 2.9 The Commission also learned that the HM Treasury's Task Force and Financial Inclusion Fund represented a huge opportunity. 'Promoting Financial Inclusion' can be found at:

[http://www.hm-treasury.gov.uk/media/8F9/37/pbr04\\_profininc\\_complete\\_394.pdf](http://www.hm-treasury.gov.uk/media/8F9/37/pbr04_profininc_complete_394.pdf)

and a copy has been placed in the party group rooms.

Paragraph 6.2 states: The Government will establish a Financial Inclusion Fund of £120 million over three years to support initiatives to tackle financial exclusion. In particular, the Fund will support the Government's aims to increase access to forms of affordable credit and to see a significant increase in the capacity of free face-to-face money advice.

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<b>Background papers:</b>	<a href="http://www.hm-treasury.gov.uk/media/8F9/37/pbr04_profininc_complete_394.pdf">www.hm-treasury.gov.uk/media/8F9/37/pbr04_profininc_complete_394.pdf</a>
<b>List of appendices:</b>	Appendix 1 – Implications. Appendix 2 – Extract from Report 1362: Community Based Finance Institutions Appendix 3 – Update report to the Commission meeting held 8 March 2005



<b>IMPLICATIONS</b>
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**Financial**

- 1.1 The most direct and transparent support would be a revenue grant towards Derbyloans' running costs. It could also be through a loan guarantee, as suggested by the Commission in December 2003, though this may need to feature in the Council accounts, even if not called upon. Alternatives could include the 'donation' of staff time, through whole or part-time secondment, to assist operational capacity. For the future it might also include free advertising livery on a Council-owned vehicle – though at present steps to increase demand would not be advisable unless the personal loan capital pot is expanded. .

**Legal**

- 2.1 To assist Derbyloans, the 'wellbeing' powers under Part 1 of the Local Government Act 2000 enable the Council to:
- (a) incur expenditure, (b) give financial assistance, (c) enter into arrangements or agreements with Derbyloans, (d) co-operate with, or facilitate or co-ordinate the activities of Derbyloans, (e) exercise the functions of Derbyloans on its behalf, and (f) provide staff, goods, services or accommodation.

**Personnel**

- 3.1 None directly arising.

**Equalities impact**

- 4.1 The purpose of Derbyloans is to reduce financial exclusion and thereby promote social inclusion. Although city-wide, about 80% of loans are made on the targeted wards experiencing high levels of multiple deprivation.

**Corporate objectives and priorities for change**

- 5.1 Derbyloans activities help promote these Council objectives :
- healthy, safe and independent communities
  - a prosperous, vibrant and successful economy
  - a shared commitment to regenerating our communities.