Association of British Credit Unions Limited

Social Investment Tax Relief review
Business and International Tax
1 Red
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

17 July 2019

Dear sirs

HM Treasury – Social Investment Tax Relief: call for evidence

We welcome the opportunity to respond to this consultation. ABCUL is the primary trade association representing credit unions in England, Scotland and Wales with around two thirds of credit unions in mainland Great Britain affiliated to the Association.

Credit unions are co-operative societies who provide financial services – primarily savings and loans facilities – to their member-owners. They are registered as Co-operative Societies under the Co-operatives and Community Benefit Societies Act 2014 and the Credit Unions Act 1979. As deposit-takers they are dual-regulated by the Prudential Regulation Authority and the Financial Conduct Authority.

Credit unions have since their inception in Britain in 1964 been closely associated with anti-poverty and financial inclusion. They tend to provide savings and loans facilities to those with limited or no access to financial services from mainstream providers, generally due to their low income and / or lack of a developed credit profile. They have been a central element of numerous government and philanthropic initiatives to extend financial inclusion and address the lack of adequate provision of affordable credit and secure savings facilities for large sections of the population. They are capped in the interest that they can charge at 43.6% APR under the CUA 79 and provide credit in competition with high-cost lenders who charge several hundred (in the case of doorstep lenders) or several thousand (in the case of payday lenders) % APR.

They are numerous, with around 300 credit unions active in mainland Great Britain today, and have around 1.3 million members and £1.5 billion in assets under management. They range from mid-sized businesses of up to 50 staff or more to small voluntary organisations.

This brief summary of the nature and role of credit unions demonstrates the clear social value that they create through the provision of financial services to excluded and underserved communities. We therefore believe that there is a clear case to consider extending eligibility for Social Investment Tax Relief to credit unions.

When Social Investment Tax Relief was first consulted upon and legislated for, we argued for credit unions to be eligible for the Relief outwith the definitions of social enterprise which were originally proposed and then confirmed as the policy was finalised. We recognise that there may be limited appetite to consider revisiting this argument at this stage but we believe that there is new information and context available at this juncture which should be adequate cause to reconsider:

- The importance of capital investment in credit unions has grown as the Prudential Regulation Authority has increased the upper capital requirement for the largest and most complex credit unions to 10% capital reserves as a proportion of total assets. This places significant strain on credit unions' ability to grow since as co-operative societies they cannot offer an equity stake to investors and therefore tend to rely solely on retained earnings to accumulate capital. The capital instruments that credit unions rely upon for secondary capital – subordinated debt & deferred shares – are uncertain due to the limited returns available to investors.

- Capital's importance is further emphasised by the technological investment required of credit unions to remain competitive and relevant for modern consumers – including the excluded – who expect digital and mobile accessibility to services as standard for reasons of both convenience and anonymity. Attracting appropriate investment in these developments can be challenging for credit unions given their co-operative structure.

- The Lloyds Banking Group Credit Union Development Fund delivered by the Credit Union Foundation has invested (via grants) in capital reserves of credit unions a total of £5 million and has had a five-fold leverage effect in terms of expanded credit union lending – i.e. £5 million investment has generated £25 million of new lending. This demonstrates the power of capital investment in unlocking latent growth potential for credit unions under the pressure of ratcheting capital requirements and with limited current profitability (due to their excluded and underserved membership base).

- A Social Finance report, co-commissioned by ABCUL and Big Society Capital – *Building the case for social investment in credit unions* – demonstrated that there is a clear potential for social investment to catalyse credit union growth but that this, among other things, requires credit unions to be in a position to pay a sufficient financial return to investors. It recommended that tax relief be extended to credit unions to make a sufficient return more feasible for credit unions to offer given their member-customer profile and the consequent limited profitability that they suffer from.

- Government and the regulatory authorities – particularly the FCA have a renewed focus and support for expanding credit unions as a means of providing sources of affordable credit to those that have limited options. This involves the establishment of a Financial Inclusion Policy Forum between HM Treasury and DWP which has encouraged the review of SITR and CITR to support the provision of affordable credit. A new organisation – *Fair4All Finance* – is being established to support investment in affordable credit providers and the Budget of 2018 announced a wider package of measures to support the expansion of community lenders such as credit unions. We believe this focus demonstrates a wider policy interest and appetite to support the expansion of credit unions and a recognition of the social role that credit unions play in financial and credit markets.

We appreciate that there is a challenge in relation to verifying the social value creation and activities in addressing market failure which credit unions are engaged in. We accept that not all credit unions are lending to excluded and underserved markets or competing directly with expensive lenders. However, we believe that a simple system of verification could be established by which a credit union would be assessed for eligibility based on an assessment of their activities, the groups to whom they are lending and their mission. We would be glad to work with HM Treasury to help define and develop such an assessment framework.

I would be very happy to discuss this feedback further, should you wish.

Yours sincerely,

M. Bland

Matt Bland
Head of Policy & Communications