

CHESHIRE EAST COUNCIL

Cabinet

Date of Meeting: 7th January 2014
Report of: Finance Policy Development Group
Subject/Title: Council Support for Cheshire Neighbours Credit Union
Portfolio Holder: Cllr Peter Raynes, Finance

1.0 Report Summary

- 1.1 This report presents the recommendations of the Finance Policy Development Group (the Group) in relation to Council support for Cheshire Neighbours Credit Union (CNCU) to be presented to Cabinet for consideration.
- 1.2 The recommendations below are those of the Finance Policy Development Group and as such have not been fully considered in terms of legal, financial, risk management and policy implications. Further work is needed to consider whether the actions recommended are viable, and Cabinet is there by asked in the first instance to formally respond to the recommendations at a subsequent meeting.
- 1.3 The report contains an overview of the Group's work on developing its recommendations as well as a brief summary of the current climate within the credit union industry. The report also contains details about the Group's recommendations.

2.0 Recommendations

- 2.1 That Cabinet note the Finance PDG's Report.
- 2.2 That Cabinet endorse the PDG's recommended aims and objectives for the Credit Union as set out in section 11 of the report.
- 2.3 That Cabinet consider the following recommendations and approve the suggested approach to implementation in paragraph 13.1 of the report:
 - 2.3.1 That CNCU be given access to the libraries in Nantwich, Middlewich, Alsager, Sandbach and Macclesfield for at least two hours per week to increase visibility and to improve public access to its services. This would include, where possible, access to private meeting rooms for interviews and confidential discussions with members.
 - 2.3.2 That library staff in the libraries listed above be enabled to handle enquiries and general information requests about CNCU by receiving a training brief from CNCU.
 - 2.3.3 That consideration be given to providing CNCU with access to suitable Council owned office premises in Crewe, free of charge if possible. Ideally

the office would allow public to access services from the street as well as storage space and access to private meeting rooms for interviews and confidential meetings.

- 2.3.4 That the payroll deduction scheme offered by CNCU be promoted to Cheshire East employees via the CEntranet and Staff Notice Boards.
- 2.3.5 That recruitment of volunteers from within the Council with marketing, finance or IT skills to help CNCU be carried out via CEntranet, Staff Notice Boards and the Council Website.
- 2.3.6 That Cheshire East Councillors be encouraged to support credit unions by promoting them within their communities and sharing expertise through volunteering.
- 2.3.7 That the Council encourage partners such as Citizens Advice Bureau, Registered Social Landlords and Community Groups to support and promote CNCU within their memberships.
- 2.3.8 That links to CNCU's website be included on the Council's website.
- 2.3.9 That a scheme to provide Cheshire East Care Leavers with membership to CNCU be initiated including funding for membership fees.

3.0 Reasons for Recommendation

- 3.1 A variety of initiatives have been implemented by the Council recently to discourage residents from turning to payday lenders for high interest short term loans that can lead to significant fees that people are unable to afford causing them considerable financial difficulty. The Group's aim in making these recommendations is to create a viable and ethical alternative to pay day lenders for residents across Cheshire East that provides quality services and is financially sustainable.
- 3.2 More detail on the reasons for recommendations is contained within the report below.

4.0 Wards Affected

- 4.1 All Wards

5.0 Local Ward Members

- 5.1 All Ward Members

6.0 Policy Implications

- 6.1 Not known at this stage.

7.0 Financial Implications

7.1 Not known at this stage.

8.0 Legal Implications

8.1 Not known at this stage.

9.0 Risk Management

9.1 There are no identifiable risks.

10.0 Background

- 10.1 Credit Unions are not for profit savings organisations or co-operatives whose members pool their savings to provide each other with credit at a low interest rate. Credit Unions also provide many other services such as financial advice, help with making sure bills are paid and saving for events such as Christmas. Credit Unions are able to offer small to medium loans that many high street banks may not be willing to provide at rates that massively undercut the interest rates charged by pay day lenders.
- 10.2 However due to the low interest rates paid by borrowers, many Credit Unions struggle to cover the costs of administering the loans and other services meaning they often rely on financial support from Government or Local Councils to subsidise their activities. This is unsustainable in the long term and with viable alternatives to pay day lenders being sought there is a desire nationally to make changes to the credit union industry.
- 10.3 The Department for Work and Pensions (DWP) has provided £38 million for the Credit Union Expansion Project to aid in modernising and expanding credit unions in a way that makes them financially sustainable. This project will be carried out by Association of British Credit Unions Ltd (ABCUL) which was awarded the contract following a procurement exercise. The Government will also be helping credit unions to increase revenues by increasing the cap on interests charged by credit unions from 2% per month to 3%.
- 10.4 At a local level CNCU is looking to become financially sustainable by making significant changes to its operations and increasing its membership across Cheshire. To do this it is seeking support from the Council and the Group has been asked to consider and make recommendations to Cabinet on what support it thinks the Council should provide.
- 10.5 At its September meeting the Group met with John Weir, Chairman of the Board of CNCU and Sharon Angus-Crawshaw who is Nantwich LAP Manager as well as a president of ABCUL. Mr Weir gave an overview of CNCU's current status, future challenges and areas where it required support. At the subsequent meeting in October Mr Weir presented a more detailed list of proposals requesting support from the Council in various aspects of CNCUs activities which the Group considered in detail on 5 November and developed suggestions for support to be offered. On 2

December the Group met with Mr Weir once more to discuss its suggestions for support and CNCU's specific requirements to form the Group's recommendations.

11.0 Aim and Outcomes of Support

11.1 During its deliberations over CNCU's proposals for support the Group developed an idea of what position the credit union was likely to hold in the financial services market and concluded that it would:

- Occupy the low end of the market, targeting people who cannot obtain a loan or savings account with a high street bank.
- Target people on benefits who need help with budgeting and making sure their bills are paid.
- Provide ethical financial advice and help people to avoid debt, as well as provide low cost loans where they were needed.
- Provide access to people who want to save money for philanthropic reasons where it will be used to help others.

11.2 Having developed this idea of where the credit union will be in the financial services market and considered its requirements for doing so the Group has established the following aim for the Council:

"To assist CNCU in becoming financially sustainable in the long term creating a viable and ethical alternative to high street banks and pay day lenders for residents and workers in Cheshire East."

11.3 To help achieve this aim the Group has developed the following outcomes which, if realised, should help CNCU to become financially sustainable in the long term.

- Reduce CNCU's running costs
- Increase CNCU's revenue from services and loans
- Improve CNCU's service provision
- Increase CNCU's membership throughout Cheshire East

12.0 Support to be provided

12.1 To assist CNCU in becoming financially sustainable the Group has made the recommendations set out in section 2 of this report. This section explains those recommendations in more detail.

- *That CNCU be given access to the libraries in Nantwich, Middlewich, Alsager, Sandbach and Macclesfield for at least two hours per week to improve its members' access to services. This would include, where possible, access to private meeting rooms for interviews and confidential discussions with members.*
- *That library staff in those libraries be enabled to handle enquiries and general information requests about CNCU by receiving a training brief from CNCU.*

- 12.2 The Group suggests that to help increase CNCUs membership it needs to be able to access residents in more locations throughout the Borough. One way of increasing this access is to provide space for CNCU employees and volunteers to be available to the public in various libraries around the Borough. As well as providing local access to its members CNCU would also benefit from increased visibility in the community by being more conspicuous to the libraries' other visitors who may be interested in joining the credit union.
- 12.3 Services the public would need access to include: completing membership applications, pre-paid card applications, setting up savings products and general information and financial advice. There would be no cash exchange or handling in libraries.
- 12.4 To carry out these activities in libraries CNCU would require space in each library for two to three hours per week on a specific day and time which would be advertised to members and the public so they know when a CNCU employee/volunteer is available in their area.
- 12.5 CNCU has laptops that their staff could use however access to a computer in the libraries would be useful. Access to a room where private and confidential information could be discussed with customers would be valuable however this would be in addition to a desk in the open area of the library to ensure CNCU was visible. To maintain visibility and access to services, CNCU can offer a short training brief to library staff to enable them to signpost customer to CNCU effectively.
- 12.6 The Library Service is developing Cheshire East's libraries to become community hubs providing a place for a range of community partners to engage with customers in the community; by providing a space for CNCU the libraries would be fulfilling this role.
- 12.7 The Group believes that CNCU should not be over stretching its ability to offer quality services to members by trying to access all libraries in the Borough. Therefore it is suggested that the libraries in Nantwich, Macclesfield, Middlewich, Alsager and Sandbach be targeted as the most effective locations for increasing membership. However the Group suggests that should CNCU be successful in increasing its membership through the libraries above then consideration should be given to extending to the other libraries in the Borough.
- *That CNCU be offered access to a suitable office premises within Council accommodation in Crewe free of charge. Ideally the office would allow public to access services from the street as well as storage space and access to private meeting rooms for interviews and confidential meetings.*
- 12.8 One of the main obstacles for credit unions in becoming financially sustainable is high running costs compared to revenue generated from its products. To enable CNCU to become financially sustainable the Council can provide low cost or free accommodation for back office activities.

- 12.9 CNCU currently occupies a head office located at Breeden House on Edleston Road in Crewe which is supported by a second office in Wyvern House, Winsford which is provided by Cheshire West and Chester Council free of charge.
- 12.10 CNCU is considering reducing their back office operations to a single location, preferably in Crewe to minimise disruption to staff and Board Members. Rent at Breeden House is currently £11,500 per annum however CNCU has reported that this may be increasing to £20,000 in the near future due to landlord's demands. This is a significant proportion of CNCU's fixed costs.
- 12.11 Given that CNCU is converting to a cashless system it will no longer require the front office high street access that Breeden House currently provides. It would however require similar access for the public as in the libraries as discussed above. An ideal location for CNCU's operations would provide accommodation for six people, with access for members of the public including disabled access, access to private rooms for confidential discussions and space for storage of files and records.
- 12.12 The Group has been informed by Officers that accommodation may be available in the municipal buildings in Crewe. Currently there are several options being considered for the available space however facilities at the municipal buildings may be suitable for CNCU with a reception area and interview rooms available for public access.
- 12.13 More detailed information about CNCU's requirements and the facilities available needs to be considered before a decision on whether the space at the Municipal Buildings is suitable. The Group also notes that CNCU is currently under contract with its landlord until 2015 although negotiations are taking place to change this.
- *That recruitment of specialist volunteers with marketing, finance or IT skills to help CNCU be carried out via CEntranet, Staff Notice Boards and the Council Website.*
 - *That the payroll deduction scheme offered by CNCU be promoted to Cheshire East employees via the CEntranet and Staff Notice Boards.*
- 12.14 CNCU currently employs four part time staff in its offices in Crewe and Winsford with an apprentice in each office and 25 volunteers providing services across Cheshire East. CNCU is finding that volunteers are becoming more difficult to recruit particularly younger generations. CNCU requires more volunteers with skills that are relevant and of a sufficient standard to provide quality services to members.
- 12.15 During discussions with the Group, CNCU had originally proposed that the Council provide temporary secondment of relevant employees to provide expertise to help CNCU develop its operations and services. The Group has ruled this out as CNCU would be unable to fund any secondments at this time and the Council cannot afford to allow staff to be diverted from services that are already under pressure in the current budgetary climate.
- 12.16 Instead the Group is suggesting that the Council encourages its employees to consider giving up some of their free time to become a CNCU volunteer. CNCU requires general volunteers with basic IT skills to carry out general administration but

also requires some specialist volunteers with specific skills such as marketing, financial management and advanced IT skills to carry out specific pieces of work.

- 12.17 Some Cheshire East employees are already members of CNCU through their payroll deduction scheme and may be willing to volunteer having not considered doing so previously. A campaign to encourage employees to volunteer for CNCU could be carried out via CEntranet and the social message board. The Chief Executive could also be requested to raise the issue in his weekly Team Talk news letter which is emailed to all staff every week.
- 12.18 The Group suggests that a recruitment campaign amongst the Council's employees may only be a sort term solution to volunteer recruitment and may not be effective over the long term. To have stable recruitment of volunteers over the long term the Group suggests that CNCU develop its own engagement strategy for long term recruitment. One example suggested by the Group was targeting local rotary clubs for volunteers as many of them have members who are retired with excellent skills and experience that would be of great value to the credit union.
- 12.19 As well as promoting the recruitment of volunteers, the CEntranet and social message boards could also be used to promote CNCU's payroll deduction scheme to increase its membership within Cheshire East employees. Pay roll deduction is a straight forward way for members of the credit union to have funds transferred directly into their savings accounts.
- *That Cheshire East Councillors be encouraged to support credit unions by promoting them within their communities and sharing expertise through volunteering.*
 - *That the Council encourages partners such as CAB, RSLs and Community Groups to support and promote CNCU with their memberships.*
- 12.20 As well as asking employees to volunteer their time and skills to support CNCU the Group believes that the Council should encourage Councillors to use their visibility and contacts in their local communities to promote credit unions as an alternative to pay day lenders and high street banks, and offer their valuable skills and experience as volunteers where possible.
- 12.21 The Group notes that Cabinet has already shown support for CNCU at a recent Council meeting by signing up as members of the credit union and encouraging other members to do the same.
- 12.22 Councillors are also in a position, as board members and governors of other local community organisations, schools and registered social landlords (RSLs) to encourage them to work closely with CNCU to recruit new members and share resources to improve the lives of local people.
- 12.23 One significant opportunity for CNCU to work with other organisations is for RSLs to encourage their tenants to use CNCUs Jam Jar Accounts. Through Jam Jar accounts CNCU can ring fence part of the members' savings/income to ensure that rent and

other bills are paid on time and in full, leaving them free to access the remainder of their money each month.

12.24 Jam Jar accounts ensure that RSLs receive rent from their tenants and earn CNCU £5 each month in charges for administering the accounts. The Group is aware that some RSLs in the Borough have already made agreements with CNCU to pay the £5 per month service charge on behalf of their tenants as an investment in ensuring their rent is paid.

12.25 The Group is keen to see all RSLs in the Borough sign up to this initiative, particularly as more and more social housing tenants will be moving onto the Government's Universal Credit benefit scheme where they will be responsible for managing their own benefits instead of having their rent paid directly to their landlords as has been the case in the past.

- *That links to CNCU's website be included on the Council's website.*

12.26 The Group believes that the Council should assist CNCU with promotion of its products and services to local people by including links to the CNCU's website on its own web pages.

12.27 Nationally credit unions will struggle to compete with payday lenders that have significant resources to invest in large national marketing campaigns. The Council should do what it can to promote credit unions as a viable, cheap and ethical alternative to payday lenders to help residents avoid huge debts and interest payments associated with payday lenders.

12.28 As well as being able to offer their members small to medium sized loans at very affordable rates, credit unions support members by providing financial and budgeting advice to help people spend wisely, save and avoid needing payday loans or incurring overdraft fees with high street banks.

- *That a scheme to provide Cheshire East Care Leavers with membership to CNCU be initiated including funding for membership fees.*

12.29 As well as supporting CNCU in increasing its membership among adults the Group believes that more should be done to encourage young people to consider using credit unions and increase the number of people contributing to Junior Savers accounts for their children.

12.30 By targeting young people CNCU could benefit from establishing them as life time savers ensuring the long term stability of its overall membership. Offering financial advice and services to young people may also help to foster a culture of financial responsibility and saving across the Borough, helping hundreds of people to stay out of financial difficulty.

12.31 The task of targeting young people in schools and colleges across the borough is a difficult one that the Group has been unable to consider in detail during its work. Instead the Group has considered how it can target a smaller group of young people that would benefit from financial advice and support, namely Care Leavers.

- 12.32 As their corporate parent the Council is in prime position to assist Care Leavers by setting them up with a CNCU membership that will allow them to access financial advice and services that will be invaluable in helping them to become independent when they leave care.
- 12.33 According to Officers this is an initiative which would be welcomed by the Cared for Children service with funds being available to cover each Care Leavers £5 membership fee to join CNCU.
- 12.34 Despite not considering the concept in detail during its work, the Group suggests that targeting young people in schools should be considered further. This may be carried out by establishing a pilot scheme in a single school/college that could then be expanded if successful in encouraging young people to become members or parents to set up junior savers for their children.

13.0 Conclusion and Next Steps

- 13.1 The Group believes that each of the recommendations above should contribute towards achieving the outcomes required to help make CNCU financially sustainable. However the Group is aware that further work is required to put in place viable and effective support. Therefore it is suggesting that in considering the Group's recommendations Cabinet and Officers engage with John Weir of CNCU to establish precise requirements and feasibility of the options available to implement the recommendations.
- 13.2 The Group notes that there are several other credit unions located in the Borough operating on a much smaller scale than CNCU however experiencing similar challenges in the current climate. Whilst these credit unions may have relatively small scope and impact the Council may wish to consider supporting them in similar ways that it is requested to support a larger credit union in CNCU.

14.0 Access to Information

The background papers relating to this report can be inspected by contacting the report writer:

Name: James Morley
Designation:

Scrutiny Officer
Tel No: 01270 6 86468
Email: james.morley@cheshireeast.gov.uk