



Cheshire *Neighbours*
Credit Union

*To secure savings and affordable loans for everyone living,
working or volunteering in Cheshire*

1. Overview of Cheshire Neighbours Credit Union

A community finance co-operative with great potential

CNCU is a local financial co-operative run and controlled by its members who share the common bond of either living or working in Cheshire. We are a local, not for profit community based organisation and concentrate on offering our members a first class service, customised to what they need.

CNCU is managed by a team of paid staff and volunteers who ensure the interests of members are met and business is being conducted within the Prudential Regulatory Authority guidelines.

Our aim as a Credit Union is to promote sensible saving and management of finances and to provide alternative access to affordable and safe borrowing and basic banking including those excluded from the high street banks.

Cheshire Neighbours Credit Union's vision is to secure savings and affordable loans for everyone living, working or volunteering in Cheshire. To deliver this vision, the credit union has determined a growth strategy to become more sustainable.

2. Background

In 2002 a credit union was created under a grant from the then Crewe and Nantwich Borough Council and the now defunct North West Development Agency under the name of Crewe & Nantwich Credit Union (C & N). In 2010 C & N Credit Union merged with Cheshire Council's Employee's Credit Union to form Cheshire Neighbours Credit Union (CNCU).

During 2010 the Department for Work and Pensions (DWP) provided funding for a number of credit unions throughout the UK. The purpose of this was two-fold, (1) to provide funds for infrastructure, and (2) to place loan funds into the community. However, the DWP did not take into account that many credit unions were run primarily by volunteers and many were without the financial awareness to safeguard the loan money provided to its members. CNCU was one such credit union who obtained DWP funding.

Stage one of the funding was spent on improving software infrastructure. The second stage funding was provided to underwrite loans to members of the public who did not meet existing loan criteria. This ultimately resulted in bad loans policy which, in conjunction with poor debt management controls, resulted in CNCU developing a large and irretrievable debt.

In November 2012 the then Financial Services Authority (FSA) met with CNCU board members to review the strategy of the CNCU. After many subsequent meetings, and with the appointment of a new part time CEO to oversee and drive forward the necessary changes, the FSA allowed CNCU to continue trading. However the FSA placed a six month moratorium on lending. This was a decision made for the correct reason, but had huge effect on the trading position of CNCU whilst neighbouring credit unions took advantage of the no loans position. This requirement also conveyed a message of concern to members and to outside bodies with whom the CNCU was attempting to engage.

During the DWP loan funding period the loan book appeared healthy, however over time the bad debt began to realise. As a result the new CEO undertook a robust review of the entire loan policy and management of loan repayments. In conjunction a complete review of the operation within the CNCU was also implemented. This resulted in the closure of two office locations and three staff redundancies being implemented, leading to substantial costs savings.

CNCU continues to work closely with the Prudential Regulatory Authority and the Association of British Credit Unions Limited as funding challenges continue, to ensure that levels of compliance are maintained and CNCU remains in business.

3. Quick Profile

- CNCU was formed in 2002 as Crewe and Nantwich Credit Union. A subsequent expansion of the common bond led to it becoming the Cheshire Neighbours Credit Union
- A small staff team are funded through grants, and are supported by a large number of volunteers.
- Membership currently stands at 2000 and around 50% of the membership is active by way of regular savings or a loan facility.
- Some 25% of Cheshire Neighbours Credit Union (CNCU) members are unable to access a high street bank account.
- Most transactional activity takes place within its 12 local collection points located across the Cheshire East and Cheshire West areas.
- Low cost affordable loans and convenient savings are the two core services currently offered.
- Additional services include Jam Jar Budgeting Accounts and the ABCUL Pre-Paid Card
- Loans: There is a total of £123, 029 out on loan and there are currently 256 loans in total.
- **Additional funding from external sources is secured from time-to-time to support core operational activities, such as a favourable office rental arrangement from Cheshire East Council**

4. Operating Environment

- There is potential demand for the credit union across the community: the Cheshire Neighbours common bond covers areas of relatively well-off residents with pockets of deprivation – one of the most-polarised boroughs in the country.
- The welfare reform agenda means there is a need for credit union services. In addition, high street providers are not trusted and the only other credit union active in the community is West Cheshire CU, which is concentrated mostly on the Chester and Ellesmere Port area.
- In recent years, as it has grown, the credit union has struggled to make a volunteer-based operating model work sustainably, and the availability of grant-funding to support this model is much

decreased. However, there are opportunities to develop partnerships with like-minded organisations.

- Various advice services are referring to credit unions, and while it is under significant funding pressure, Cheshire East Council sees a role for a credit union in Cheshire East.
- The credit union is in the process of identifying shared objectives with a range of partners which will offer longstanding and long term commitments.

5. Growth Strategy : Getting Fit for the Future and Development

There are two key themes to the development of CNCU: Get Fit and Development - respectively strengthening and growing the credit union.

Priorities are summarised below.

5.1 Get Fit and Keep Fit:

- Address bad debt risks
- Strengthen governance
- Increase income
- Address employer obligations

5.2 Development:

- Improve the member offer, products and grow membership
- Improve efficiency
- Develop professional, active partnerships
- The following opportunities are expected to be relevant to plans from mid-2015 onwards:
 - Extension of web and phone services, online membership joining facility and loan application
 - Physical presence in shopping and / or population centres (e.g. a shop, outreach)
 - Funded marketing budget

6. Financial Projections - Growing without undue risk

CNCU has recently updated the Business Plan and a three-year financial projection has been prepared which reflects this. An Action Plan is being finalised and implemented which will deliver against the Business Plan.

The key assumptions are:-

- Growth continues at the recent historic rate of 10% annually for members, 15% for loans (net of bad debts) and 13% for shares.
- Growth is supported by marketing campaigns, in particular in areas where payroll deduction is most straightforward.
- Trading income builds in new pricing, although the impact of recent changes is yet to be fully examined.
- **Grant income assumes the Council funding endures throughout the Plan period, but CNCU funding reduces by 50% in 2014/15 and 50% again in 2015/16.**

- Operating costs are lifted significantly by the Development Manager role (funded by external grants). Otherwise costs grow by inflation of 2.5% where relevant.
- Marketing expenditure has not been included and would be treated as an investment
- Bad debts and provisions reduce on average by 5% annually and from the 5% of loans currently to 3% of loans.
- Reserves are circa 8% of total assets.

7. Summary

- CNCU has achieved a great deal to reach its current level of membership, and the value it is offering to so many members.
- The current position of the credit union is fragile in terms of finances and personnel, but it provides a platform with considerable opportunities to explore.
- The former business model dictated that 80% of income/transaction was achieved through social need individuals and the remaining 20% generated from employed and regular savers. This business split is not viable and has been reversed.
- By concentrating primarily on the employed and regular savers, many of whom will be on low incomes, CNCU will achieve the stability and sustainability to enable it to effectively support social need members and help them to manage their finances.

8. LGUI Report - Financial Exclusion and Credit Unions - 13 July 2015

This recent report notes that as individual and family debt has increased there has been growing interest in credit unions. Both Labour and the Coalition governments have sought to promote credit unions, increase pressure on unsuitable lenders, and take wider steps to tackle poverty and debt. Credit unions have grown steadily in size and reach but market penetration remains low in comparison with international standards.

Local authorities have played a significant role in promoting credit unions and financial inclusion, and the report goes on to say that many British CUs are significantly dependent on grant funding or support from local authorities. 80% of community based credit unions receive some form of grant.

Government support for CUs has been accompanied by pressure on unsuitable lenders like payday loan companies from the regulatory bodies. As a consequence, some smaller lenders have left the market and the main lenders are struggling. 'Wonga' revealed it was axing hundreds of jobs, to cope with the 'evolving business and market' in a clear sign that the rate cap was hurting. It has recently announced a pretax loss of £37 million, a hefty change from 2012 when the firm made £62 million in profit. This regulatory clampdown on the payday loans sector – led by a cap on the overall cost of loans – does appear to be benefitting vulnerable borrowers. Nationally Citizens Advice has said that the number of complaints it had received over payday loans had nearly halved since last year.

The report also comments that local authorities have a clear interest in promoting credit unions and financial inclusion, given the knock on effects of increasing debt on demand for local authority services. This has become even more important as public sector financial cutbacks impact disproportionately on local authorities.

SUPPORT FROM CHESHIRE EAST COUNCIL – UPDATE REPORT JULY 2015

Background

In February 2014, and following an earlier presentation from the CNCU CEO John Weir in September 2013, the then Finance Policy Development Group agreed and set in motion a series of recommendations to support CNCU.

These were as follows: -

- Access to libraries to increase visibility and to improve public access to CNCU services.
- Provision of office space on the 3rd Floor, Delamere House and use of interview room in reception area
- Encourage partners such as Citizens Advice Bureau, Registered Social Landlords and Community Groups to support and promote CNCU within their memberships
- Payroll deduction scheme offered by CNCU be promoted to Cheshire East employees via the CEntranet and Staff Notice Boards
- 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.
- Cheshire East Councillors be encouraged to support credit unions by promoting them within their communities and sharing expertise through volunteering
- Links to CNCU's website be included on the Council's website
- That a scheme to provide Cheshire East Care Leavers with membership to CNCU be initiated including funding for membership fees.

In January 2015 a document requesting financial assistance from Cheshire East Council was submitted by John Weir to Cllr Peter Raynes, the then Portfolio Holder for Finance. The document asked Cheshire East Council help CNCU achieve sufficient self-generating funds by the end of the financial year in September 2017 by considering the following options: -

- 1) The purchase of deferred shares. The request was that CEC purchase £55,000 of these.
- 2) Providing working capital for the CNCU during the next three year period as follows: -
 - £60,000 at the commencement of the financial year October 2014 until September 2015.
 - £30,000 at the commencement of the financial year October 2015 until September 2016.
 - £15,000 at the commencement of the financial year October 2016 until September 2017.

This request for funding was based on a step down funding basis thereby ensuring that the CNCU remains focused on its objective to be self-funding within a given period of time.

An update report was given to the Jobs, Regeneration and Assets Scrutiny Committee on 12 March 2015 – at which a recommendation was made by the Committee for the Chair to write to the Portfolio Holder to request that funding of £60,000 for CNCU be arranged. This was subsequently actioned.

At the meeting on 12th March 2015 it was also noted that whilst most recommendations had been implemented there had been some difficulty with engaging with Care Leavers and in encouraging volunteers to come forward. A scheme to engage with school children and set each of them up with a credit union account that Glasgow City Council had implemented was discussed as a potential development.

CNCU Progress

- A new Business and Action Plan has been developed in order to deliver the CNCU Growth Strategy
- Collection Points within libraries are now well-established
- Relocation to Delamere House a positive move that has helped to establish close working relationships with CEC staff teams
- Funding bids have been submitted to Cheshire Community Foundation and the British Credit Union Foundation (now at 2nd Stage) for a Development Manager and to explore the feasibility of collaboration or merger with neighbouring credit unions. A further funding bid is being prepared for Lottery 'Power to Change' initiative
- CNCU information and links on the CEC website and CENTRANET site have recently been updated, with staff actively encouraged to consider payroll deduction
- CNCU article to be in 'Team Talk' – staff newsletter

In addition

- CNCU currently conducting an active engagement campaign with existing members
- Partnership working has been implemented with local Bank Managers, with potential secondments to strengthen and support Board meetings. N.B. the CNCU Chair, Steve Edgar, is now a ward councillor 'Partners in Progress' initiative
- The CNCU CEO continues to make contact with CEC officers in order to address the outstanding recommendations

Comments

CNCU is extremely grateful for the support it has received so far from CEC, and will continue to aim to meet the recommendations as it deals with ongoing challenges.

However, if CNCU is to maintain services and have the capacity to grow then it will require additional funding to help underwrite core costs. We would therefore be grateful if in any further recommendation you could consider the options outlined under financial assistance above.

John Weir, FRSA

CNCU CEO