

Cabinet Member for Strategic Finance and Resources

12 October, 2015

Name of Cabinet Member:

Cabinet Member for Strategic Finance and Resources – Councillor Gannon

Director Approving Submission of the report:

Director of Public Health

Ward(s) affected:

All

Title:

New Central Credit Union - Grant Aid Agreement Year 1 Progress Report

Is this a key decision?

No - Although the matter within the report can affect all wards in the City, it is not anticipated that the impact will be significant and it is therefore not deemed to be a key decision.

Executive Summary:

New Central Credit Union signed a Grant Aid Agreement with Coventry City Council on 2nd June, 2014. The purpose of the grant is to support and enhance the provision of credit union services to Coventry Residents.

With the residual impacts of the last recession and on-going cuts to welfare spending, more and more people are turning to so called pay day loans. There has been a proliferation in the number of payday lenders operating in Coventry and nationally. The Council is supporting credit unions to provide a sustainable and effective alternative to the high interest borrowing typical of pay day loan companies. More generally credit unions provide an ethical and community-based approach to personal finance which, it is hoped, will benefit residents and the city over the longer term.

One of the key elements in promoting membership of credit unions in the city is to ensure exposure for the credit unions and ensure they have suitable commercial premises from which to operate. This grant helps to sustain New Central Credit Union in what was an empty Council owned commercial property on Smithford Way.

The expectation is that the credit union utilise the initial three year grant to build their business and loan book in order to generate increased revenue which will therefore enable them to sustain the property in the future without dependence on a council grant.

Recommendations:

The Cabinet Member for Strategic Finance and Resources is asked to:

1. Note the progress made by New Central Credit Union during the first year of the Grant Aid Agreement.
2. Comment on the proposals set out by New Central Credit Union for 2015 – 2016

List of Appendices included:

None

Other useful background papers:

Cabinet Member Report for Strategic Finance and Resources dated 10th March, 2014 – Supporting Credit Unions
Grant Aid Agreement Ref: L/AP/5500-516 dated 2nd June, 2014.

Has it been or will it be considered by Scrutiny?

No

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?

No:

Will this report go to Council?

No

1. Background

- 1.1 New Central Credit Union was first incorporated in August 2000 as Phoenix Five Credit Union. Over the intervening years several mergers have been undertaken with other local credit unions until in 2012 when a transfer of engagement took place with New Way Credit Union, based in North Warwickshire, and the credit union then became known by its current name of New Central Credit Union Ltd.
- 1.2 With the residual impacts of the last recession and on-going cuts to welfare spending, more and more people are turning to so called pay day loans. The Council is supporting credit unions to provide a sustainable and effective alternative to the high interest borrowing typical of pay day loan companies. More generally, credit unions provide an ethical and community-based approach to personal finance which, it is hoped, will benefit residents and the city over the longer term.
- 1.3 New Central Credit Union received a Council grant on 2nd June, 2014, towards rent, rates and refurbishment cost of premises 41 Smithford Way, City Centre. The purpose of the grant is to support and enhance the provision of credit union services to Coventry residents. The credit union too has the clear objective of helping the financially excluded and the credit union’s prominent presence would help achieve these objectives.

2. Members and service profile

- 2.1. The credit union currently has over 2800 members, with 1963 adults and over 900 juniors. Of the total membership 60% are Tier 3, members with incomes below £15000, 30% are Tier 2 members with incomes between £15,000 and £30,000 and 10% are Tier 1 members with incomes above £30,000. The table below shows percentage of savings, loans and banking within each tier.

SERVICE DELIVERY DATA					
Tier Details	Income range	Membership %	Savings	Loans	Banking*
			Percentages		
% Tier 1	>£30000	10%	10%	34%	0%
% Tier 2	£15000-£30000	30%	50%	35%	5%
% Tier 3	<£15000	60%	40%	31%	95%
Banking service includes benefit transfer, wages transfer, debit card, bill payment,rent management etc.					

- 2.2. Many of the 60% Tier 3 members (incomes under £15,000) were unbanked/financially excluded and have joined the credit union for receiving their benefits, rent management, wages or a prepaid card. Others have high street bank account but have poor credit history and no overdraft facility hence joining the credit union for affordable loans. The remaining 40% (members with income over £15,000) use the credit union services for loans from £1000 to £7500 and for ethical savings.

3. Products and services for the financial excluded and vulnerable households

- 3.1. There are still an estimated 9000 unbanked households in Coventry and also many Tier 3 members (less than £15,000 pa income) who are financially vulnerable and still have access to high cost short term loans.
- 3.2. Unbanked households in Coventry always pose a big challenge when receiving benefits and especially when universal credits start. New Central Credit Union has been assisting financially excluded members directly through its core services of savings/budget accounts and affordable loans of low value not catered for by high street banks. The credit union has also been assisting those organisations who deliver services i.e. Councils, Housing Associations, private landlords and community setups.
- 3.3. The following products and services have been developed/started, as an immediate response to assist the financially excluded:
 - **Handy Loans** – instant loan (max £500) with a savings element in the monthly payments for non-members to give easy access to credit union loans. Currently 5.3% of our loans are Handy Loans.
 - **Budget Accounts** - rent collection for private/social landlords, landlords will no longer be able to receive rent payments direct to them. The Universal Credit will see households receiving all benefits in one payment including housing benefit. Currently receiving Housing Benefit for over 150 Tier 3 members.
 - **Council Tax Collection** - Proposed Council tax collection for unbanked households with the help of a council scheme, providing a credit union account and an online banking facility by 2016.
 - **Basic Saving account for benefit transfer/wages transfer:** Working in partnership with Jesus Centre; Salvation Army; Refugee Centre; Citizens Advice Bureau; Department of Works and Pensions (DWP); Her Majesty's Revenue and Customers; local Job Centre and recruitment agencies we have over 200 Tier 3 members having their wages/child tax credit/child benefit/DWP payments transferred to their credit union account. These members, having inadequate IDs, were financially excluded from the main stream banking and are now having credit union accounts with a VISA prepaid card.
 - **ABCUL VISA Prepaid card** - a prepaid VISA card for benefits/salaries to be loaded on to (currently over 200 cards issued). The card can be used at ATMs, any point of purchase, online or get cash back.
 - **Working with partner agency CAB** under the Sorted programme, where we can refer members in financial difficulty for budgeting advice.
 - **Improving consumer credit score** - Provision of loans to the members with poor credit history and helping them build their credit score as the credit union is now using Experian's credit scoring and sharing member repayment data with all credit reference agencies. This will help member's secure future loans at better rate.
 - **Working with England Illegal Money Lending Team** to promote our affordable loans and stopping loan sharks through the planned 'pop up' shops across the city in September and October this year.

In addition the expansion project to which the credit union has signed up to, will also deliver products and services which will address the Welfare Reform changes including:-

- Online banking platform
- On-line loan application and loan calculator which informs members about the interest rate for credit union loans and compares it with other high cost lenders.

3.4. The following are examples of some of the comments received from our customers:

Member A - *'I was refused by a high street bank in Coventry as I do not have a passport or driving licence. I don't have any other ID either. I also had a bad debt with Lloyds. My support worker from Jesus Centre introduced me to the credit union, where I opened an account and am now receiving my Extra Employment Support Allowance benefit. I walk 3 miles to the credit union to get my money and am thinking of getting the prepaid card which I can use at the ATM. Without the credit union, I would not have anywhere to go for my money. I am very happy with the services.'*

Member B - *'I have been with the credit union since 2009. I often take loans from the credit union and will go nowhere else. I also have my child benefit money come in here. I can have a prepaid card, but like to come in and have a chat as staff are very friendly.'*

Member C - *'I joined in November 2014 when I joined a new agency job and had nowhere to get my wages. The credit union offered me a prepaid card and now I don't have to come to the credit union at all for money. My wages are put onto my card every week and I can withdraw from local ATM.'*

Member D - *'My home was going to be repossessed as there was a shortfall on my endowment payments and the bank was not ready to lend me more money. At the same time I had a high catalogue and credit card bills needing immediate settlement. The credit union agreed to provide me a loan with which I paid off my credit card bills and some towards the shortfall. I am thankful to the credit union, now I will not lose my home.'*

The continued presence of credit union on the high street will encourage more vulnerable people to find us and avail of our services.

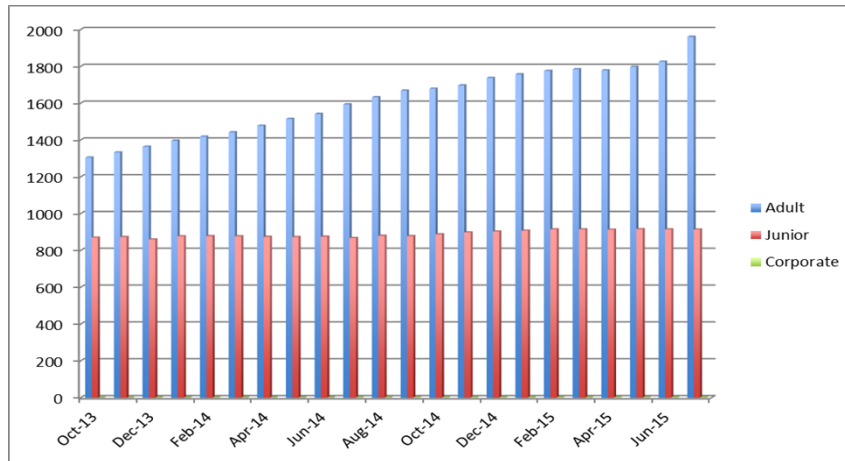
3.5. In addition the expansion project to which the credit union has signed up to, New Central will be able to assist those affected by Welfare Reform as it is seen as an opportunity to ensure continued financial inclusion and an increase in membership and use of credit union services. The credit union will continue to work with partner organisations whose clients will be affected and will flex services and products as appropriate.

3.6. New Central Credit Union has been attending the Coventry Partnership Financial Inclusion Forum to seek out more opportunities to work together.

4. Performance Report

4.1. One year in the new shop premises was completed on 24th June, 2015 and since moving to these premises there has been an increase in membership, savings and loans.

4.2. **Membership** - This has increased by 20% since June 2014 from 2418 to 2877 in July 2015. Of the 2877 members 914 are juniors who have joined through school banks or directly at branch. Membership can now be provided to small businesses, corporate and local groups and there is currently two corporate memberships. Over 150 members are payroll members from a few organisations in Coventry, including Coventry City Council.



4.3. **Lending and Savings** – Since October 2013 the loan book has increased by > 20% from £437,716 to £528,713 in July 2015. Handy loans or instant loans which are targeted at lower income households who can walk in and apply for loans up to £500 now represent 5.3% of total loans, increasing from £3000 in October 2013 to £27,799 in July 2015. Savings have increased > 22% in total since October 2013 from £860,170 to £1,067,298 in July 2015. The share to loan ratio is still low around 50%, which means there is capital to lend but not the demand from borrowers.

CURRENT LOAN TYPE BREAKDOWN			
	Jul-15	% Break down	Oct-13
Handy Loans	£27,799	5.3%	£3,000
Standard Loans	£477,457	90.3%	£431,216
Christmas Loans	£8,994	1.7%	£3,500
Restart Loans	£14,463	2.7%	0
Total	£528,713	100%	£437,716

4.4. **Forecasts** –Year 1 forecast have been achieved for membership and saving targets, but work needs to be undertaken improve the share to loan ratio. It is believed that an effective marketing strategy and an online loan application which are being introduced in October 2015 will help improve this position.

The forecasts for members, savings and loans over the next three financial years are given in the table on the next page. The financial year runs from October to September.

Loans and Shares	2014-15	2015-16	2016-17
Loans to members (personal)	£585,000	£620,000	£720,000
Member shares (personal)	£962,550	£948,203	£1,040,586
Member shares (corporate)	£8,000	£9,000	£10,000
Junior deposits	£70,000	£72,000	£75,000
Total adult members	1,950	2,040	3,000
Total junior members	890	907	960
Total corporate members	3	3	4

4.5. Expansion Grant DWP Credit Union Modernisation Fund

- 4.6. Phase 1 and 2 of the Credit Union Expansion Project (CUEP), which New Central Credit Union have signed with DWP, offers an exciting future with a broad range of financial products and services, including a fully automated banking platform, together with a national marketing campaign.
- 4.7. To attract Tier 1 and 2 savers and increase operational efficiencies New Central has decided to go ahead with the Credit Union Expansion Plan with DWP. DWP have £38m to help credit unions in the programme to expand and modernise and to provide financial services and loans to 0.5 m new customers, increase both savings and loans by £500m and to assist credit unions to achieve financial stability by April 2016. In order to achieve this they require credit unions to:-
- Introduce automated banking platform capable of offering basic, current, budget, loans and savings accounts (max cost of £0.99 per week to customer)
 - Share support services (marketing, treasury and HR)
 - Improved automated loan decisions
 - Increase/improve access channels
 - Introduce additional products
 - Partake in a national marketing strategy
 - Develop effective partnership arrangements
 - Ensure professional financial advice to Boards
- 4.8. All phase 2 transformational credit unions will get funding to buy/incorporate the new online banking platform and manage the change of systems. It is believed that the CUEP products and services will be attractive to existing and potential members (Tier 1 and 2). Their development is being promoted by the government and there is general consensus that a viable alternative to the existing banking system is needed and the proposed deliverables are essential to mitigating some of the potential negative impacts of planned welfare changes.
- 4.9. Registered Social Landlord's and others are also very keen that these services and products are available to their tenants, not least to protect their own income, and are prepared to make a financial contribution towards their costs.

4.10. New Central Credit Union like all transformational credit unions will receive £8500 towards marketing costs other than the national campaign. The availability of this fund was delayed by one year; however, it has now taken action in full swing. With the help of this marketing support, New Central Credit Union has now initiated three marketing campaigns.

4.11. **Marketing Campaigns and Activities** – The three phase marketing plan to help promote it's products and to encourage new membership are:

Phase 1: An A5 leaflet campaign promoting Handy/Instant loans undertaken summer 2015.

Phase 2: The following marketing campaigns are soon to be launched:

Marketing Campaign	Details of campaign	Launch Date	Status
New Website with online loan calculator and online loan application	Online loan application to target new members and hard to reach geographical locations and communities.	Early October 2015	Development under way.
Rebranding and general awareness in the city.	New POS marketing material and leaflets.	Early October 2015	Design company hired.
Payroll promotion	Target more tier 1 and 2 payroll members for at least 3 new employers in Coventry City.	November 2015	Design company hired.

Phase 3: A National marketing campaign in April/May 2016.

5. Other Achievements

5.1. The credit union is heavily dependent on its volunteers to run its operations as it only has 2.5 full-time equivalent employees. Currently there are 15 volunteers running the credit union, a mix of students, members out of work and seeking employment, retired volunteers helping on everyday basis. The credit union has always supported volunteers looking for new skills to get into employment. Students and members seeking employment have found their credit union work experience very rewarding, many of them have secured paid jobs now.

An email we received from our volunteer in August 2015

'As you know I have been actively looking for a job, I have been fortunate enough to come back from my holiday to find that I have been offered a job in Leicester. I would like to thank you and the staff for helping me with my job experience in the past year and I am definitely not going to forget the team and the support you have given me'.

The credit union has also signed up to the apprentice program and recruited one apprentice on a customer advisory role.

6. Proposals for 2015 - 2016

6.1. The vision of the credit union is to growth into an efficient, sustainable organisation offering a variety of products and a first class service to its members. The aim is to be sustainable, funded through 90% of operational income. To achieve this there is a need to have a more mixed membership (different income groups) and products and services that will attract Tier 1 and 2 members (members over £15,000 pa income group).

- 6.2. **Expansion Grant** - To implement phase 2 of the expansion grant, with the introduction of the new banking platform and the offer of a broader range of products and services.
- 6.3. **Marketing Strategy** – To implement the Marketing Campaigns and Activities mentioned in 4.12 to compliment the Expansion Grant works and particularly to increase the number of loans issued. While our members and savings have increased well over the past year, it is loans which generate income to pay overheads. Over the last year loans have not increased as expected, so a concentrated approach on loans and engage with effective marketing will be undertaken over the coming year.
- 6.4. **Reducing Expenses** – Whilst implementing 6.2. and 6.3 above a review of bad debts and processes associated with these will be undertaken, as this is one of the biggest expenses on the credit union's financial statements.
- 6.5. The credit union will continue to work towards achieving its objectives and aim to achieve financial sustainability by end of three years.

7 Comments from Executive Director of, Resources

7.1. Financial implications

This report is the first annual report of a three year Grant Aid Agreement signed on the 2nd June, 2014. Years two and three of the agreement are for the amount of £27,024 for rent and rates for the premises in Smithford Way, Coventry. New Central Credit Union has received a copy of the letter from Cabinet Member for Strategic Finances and Resources. No further funding is being requested at the time of this report.

The External Audit of the accounts was unable to form an opinion that the accounts presented a true and fair view for the financial year end September 30th 2014. New Central has provided reasons for this, and has put processes in place to ensure this will not be the position for the 2014/15 financial year.

The Council are undertaking further work with New Central in relation to their financial sustainability by 2017/18.

7.2. Legal implications

Grant Aid Agreement in place for three years from 2nd June, 2014. Reference: L/AP/5500-516.

The Grant Aid Agreement was entered into pursuant to the Council's powers contained in Section 1 of the Localism Act 2011.

7.3. Other implications

None

7.4. How will this contribute to achievement of the Council's key objectives / corporate priorities?

One of the Council's Local Priorities is protecting the most vulnerable and reducing the impact of poverty. The Council is supporting credit unions to provide a sustainable and effective alternative to the high interest borrowing typical of pay day loan companies. More generally credit unions provide an ethical and community-based approach to personal

finance which, it is hoped, will benefit residents and the city over the longer term, making services more accessible to all.

7.5. How is risk being managed?

The grant is being monitored on a quarterly basis and an annual report will be received by Cabinet Member for Strategic Finance and Resources. Any immediate high risks will be identified and reported on at least a quarterly basis and corrective action would be undertaken.

7.6. What is the impact on the organisation?

Officer time is required to monitor the grant, but this is minimal. The Council takes its Corporate Responsibility very seriously in supporting community organisations and the vulnerable residents of the city, but austerity cuts could affect the Council's on-going commitments.

7.7. Equalities / ECA

The services of Credit Unions are targeted at the most vulnerable and provide a service open to all. There are no equality implications within the report. The report is giving an overview of services provided. The Council would undertake an ECA on any policy change

7.8. Implications for (or impact on) the environment
None.

7.9. Implications for partner organisations?

If funding were to be withdrawn during the period of the grant aid agreement, then the organisation would have to meet any shortfall in their obligations on new premises for the remainder of the term of the agreement.

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