

Cabinet Member for Strategic Finance and Resources

7th December, 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:

Coventry and District 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:

Coventry and District Credit Union Limited signed a Grant Aid Agreement with Coventry City Council on 15th September, 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 Coventry and District Credit Union in an office at 144 Walsgrave Road, Coventry. Prior to this the credit union did not have a commercial property from which to operate.

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 Coventry and District Credit Union Limited during the first year of the Grant Aid Agreement.
2. Comment on the proposals set out by Coventry and District 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 15th September, 2015.

Grant Aid Agreement Ref: RSN-16813 dated 23rd November, 2015

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?

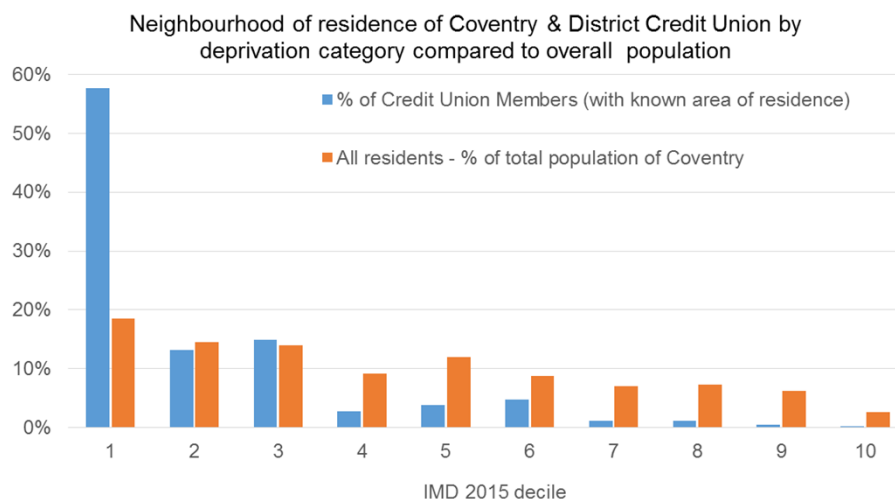
No

1. Background

- 1.1 Coventry and District Credit Union began in 1964 as a savings club at the Haggard Community Centre. In 1990 it was first incorporated as the Willenhall Credit Union, then in 2003 became the Coventry and East Credit Union, until being known by its present name the Coventry and District Credit Union in 2011 with the merger of Willenhall, Stoke Aldermore and the Coventry and East Credit Unions.
- 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 Coventry and District Credit Union Limited received a Council grant on 15th September, 2015, towards rent, rates, IT costs and general overheads relating to the premises at 144 Walsgrave Road, Coventry. 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 1250 members. The common bond qualification for membership is an individual or corporate body who/which resides or is employed in the locality of Coventry.
- 2.2. The majority of members live in Coventry neighbourhoods that are amongst the most 10% deprived of neighbourhoods in England – whereas only 19% of the total population of Coventry live in these neighbourhoods. Coventry and District Credit Union members live disproportionately in deprived areas.



November 2015, Insight, Coventry City Council

IMD 2015 decile (area of residence amongst this deprivation group - 1 = most deprived 10% of neighbourhoods in England)	Credit Union Members	% of Credit Union Members (with known area of residence)	All residents - % of total population of Coventry
1	809	58%	19%
2	184	13%	14%
3	209	15%	14%
4	38	3%	9%
5	54	4%	12%
6	66	5%	9%
7	17	1%	7%
8	17	1%	7%
9	6	0%	6%
10	3	0%	3%
Sub-total	1,403	100%	
Unknown	1,070 ^a		
Grand Total	2,473		100%

Most to
least
deprived

2.3. It should be kept in mind that this analysis is based on only 57% of members; neighbourhood of residence is not known for 1,070 out of the 2,473 members – mainly because no postcode was provided for the member when the credit union was initially established, some members have left and other accounts are dormant.

2.4. Dormant accounts are classified when there have been no transactions for a 12 month period. Accounts are rendered dormant so that annual fees to regulating bodies do not have to be paid.

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

3.1. There are still an estimated 9000 households in Coventry who do not have bank accounts and the majority of Coventry and District Credit Union members are financially vulnerable.

3.2. Households with no bank account in Coventry always pose a big challenge when receiving benefits and especially when universal credits start. Coventry and District Credit Union has been assisting financially excluded members directly through its core services of savings/budget accounts and affordable loans. The credit union has also been assisting those organisations who deliver services i.e. Councils, Housing Associations and other advice services.

3.3. The Manager of Coventry and District Credit Union was seconded to Willenhall Advice Services to work on the development and implementation of the Coventry Independent Advice Services and has recently been elected to their Board.

3.4. The following products and services have been developed/started, as an immediate response to assist the financially excluded:

- **Instant Loans** – these are not presently given by the credit union as they require customers to save for a given period before a loan is payable. Research is currently being undertaken to see if this is a product that the credit union can offer in the future.
- **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.
- **Council Tax Collection** - Proposed Council tax collection for households without bank accounts with the help of a council scheme, providing a credit union account and an online banking facility by 2016.
- **Engage Prepaid card** - a prepaid VISA card for benefits/salaries to be loaded on to. The card can be used at ATMs, any point of purchase, online, to get cash back, it also offers cash back rewards, when used in designated shops. The card is a new product for Coventry and District Credit Union and could not have been delivered from our previous premises. The product is live and will be the subject of a marketing campaign in 2016.
- **Work closely with partners** Coventry Independent Advice Services and the Church of England, where the Credit Union can refer members in financial difficulty for budgeting advice. Working with Coventry University and their advice team.
- **Working jointly with National Trading Standard Illegal Money Lending Team** to promote both credit unions in the city and for people to open a credit union account. Campaign runs from October to December 2015.
- The credit union is attached to a banking platform 'Natwest' through the engage card.

3.4. The following are customer case studies:

NUMBER 1 One member of the credit union fell seriously into arrears on a loan. After several attempts to contact the member, a visit was made to their home.

The credit union member had several problematic issues and was unable to deal with their affairs. The credit union re-scheduled the loan payments and referred them to an agency to deal with the rest of their affairs.

NUMBER 2 One client with a poor credit history and outstanding loans with a loan shark approached the credit union for help. The credit union were able to set up a saving account for them as a new member. Through the credit union the member was referred to an agency that was able to resolve many of the problems they were experiencing. The member no longer has any contact with loan sharks.

The credit union has provided support to a number of vulnerable people who are or have got into debt and were dependent on loan sharks. As well as providing financial assistance the credit union has also been able to signpost customers to other support services. Having the presence of a credit union on the high street will encourage more vulnerable people to find us and avail of our services.

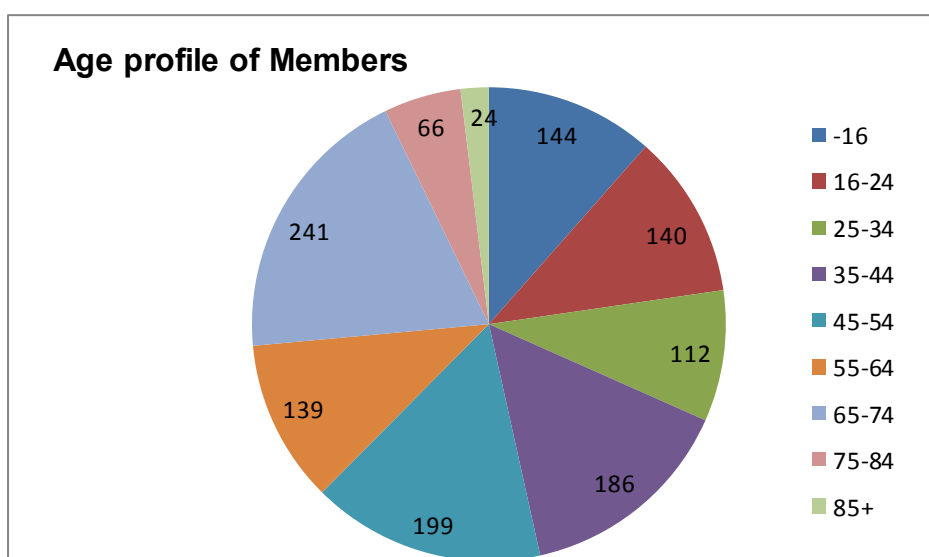
3.5. The credit union will continue to assist those affected by the Welfare Reform changes and it is seen as a real opportunity to promote credit union services to ensure financial inclusion

is extended to all, whilst increasing membership. 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. Coventry and District Credit Union has been attending the Coventry Partnership Financial Inclusion Forum to seek out more opportunities to work together.

4. Performance Report

- 4.1. Coventry and District Credit Union will complete one year in its shop in January 2016. Although the grant aid agreement was signed in September 2014, it took a while to negotiate premises and to refurbish to an acceptable standard to commence operations. Since being in the premises there has been an increase in membership, savings and loans.
- 4.2. **Membership** - This has increased by 10% since September 2014. The age profile of its membership is shown in the table below.



- 4.3. **Lending and Savings** – This has remained steady, our share to loan ratio is around 65%. The recommended ration by ABCUL is 70%, which means there is still some capital to lend to borrowers. It is our aim to increase this ratio to approximately 80% during the lifetime of the grant. We have attracted new members and they have yet to lend. Membership is still increasing at a steady rate.
- 4.4. **Forecasts** –Year 1 forecast have been achieved for membership and saving targets, but as outlined above some work needs to be undertaken improve the share to loan ratio. It is believed that an effective marketing strategy attracting new members and launching new products would achieve this.
- 4.5. The forecasts for members, savings and loans over the next three financial years are given in the table over. The financial year runs from October to September.

	2015	2016	2017	2018
End of year total Members	1250	1350	1475	1625
Average shares/member	£204	£300	£350	£400
Loan/share ratio	65%	70%	75%	80%
Average loans/member	£200	£250	£300	£350

5. Other Achievements

- 5.1. The credit union, having only one full-time employee, is reliant on its volunteers to run its operations. Currently there are 17 volunteers supporting 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. Permission has been given for the following examples to be shown.

NUMBER 1 *One member who lacked confidence became a volunteer at the credit union and over time has gained confidence and now works to help and support other members.*

NUMBER 2 *Another volunteer, who is a graduate, found great difficulty in obtaining paid employment. After volunteering for a number of years, they were encouraged by the credit union to apply for a bursary to return to education to complete their Masters. The member has now gained full-time employment, but still maintains contact with the credit union.*

6. Proposals for 2015 - 2016

- 6.1. The vision of the credit union is to grow 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 operational income. To achieve this there is a need to have a more mixed membership. Marketing campaigns, aimed at particular sections of the community will attract the financially marginalised by creating sustainable and viable alternatives to high interest lending. In addition to this we hope to offer greater rewards to savers thus attracting a more affluent member.
- 6.2. **Reducing Expenses** – Coventry and District Credit Union began a review of its operating expenses in 2015. Whilst this is still on-going they have reduced their arrears by 50% since April 2015. Bad debt policy has been reviewed and it is predicted that the credit union will be able to reduce the provision required for bad debt by at least 25% throughout the lifetime of the grant.
- 6.3. **Full Operational Review** – An Operational Review commenced in November 2015. It is intended that over the next 3 – 6 months to update and create policies and procedures to comply with new directives from credit union regulators. Implementation of the revised policies and procedures will begin in February 2016 aimed at improving the overall efficiency of the credit union. In line with this the credit union will also review its management structure to comply with directives imposed by the regulators.

- 6.4. The credit union will continue to work towards achieving its objectives and aim to achieve financial sustainability by end of three years.

7 Results of Consultation undertaken

Not applicable to this report.

8 Timetable for implementing this decision

Not applicable to this report.

9 Comments from Executive Director of, Resources

9.1. Financial implications

This report is the first annual report of a three year Grant Aid Agreement signed on the 15th September, 2014. Years two and three of the agreement are for the amount of £15,000 for rent, rates, IT costs and general overheads for the premises 144 Walsgrave Road, Coventry. Coventry and District 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 Council are undertaking further work with Coventry and District Credit Union in relation to their financial sustainability by 2017/18

9.2. Legal implications

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

The Grant Aid Agreement is for three years from 15th September, 2014. Reference: L/AP/5500-516.

Grant Aid Agreement Ref: RSN-16813 dated 23rd November, 2015

9.3. Other implications

None

9.4. 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.

9.5. 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.

9.6. 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.

9.7. 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

9.8. Implications for (or impact on) the environment

None.

9.9. 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.

Report author(s):

Isabelle Osborne
Dawn Ford

Manager, Coventry and District Credit Union Limited
Coventry Partnership and Communities Manager

Directorate:

Chief Executive's

Tel and email contact: x 4356 dawn.ford@coventrypartnership.com

Enquiries should be directed to the above person.

Contributor/approver name	Title	Directorate or organisation	Date doc sent out	Date response received or approved
Contributors:				
Isabelle Osborne	Manager, Coventry and District Credit Union Limited	Coventry and District Credit Union Limited	18.11.15	18.11.15
Dawn Ford	Coventry Partnership and Communities Manager	Chief Executive's	18.11.15	18.11.15
Usha Patel	Governance Services Officer	Resources	18.11.15	18.11.15
Names of approvers for submission: (officers and members)				
Finance: Nicola Leslie	Accountant	Resources	18.11.15	23.11.15
Legal: Helen Lynch	Commercial Lawyer	Resources	18.11.15	23.11.15
Director: Jane Moore	Director of Public Health	Chief Executive's	18.11.15	
Valarie De-Souza	Public Health Consultant	Chief Executive's	18.11.15	
Members: Councillor Damian Gannon	Cabinet Member		18.11.15	23.11.15

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