



# *Strategies for Growth*

*A research study into the progress and  
development of credit unions in the North  
East of England and Cumbria*



Paul A Jones  
Research Unit for Financial Inclusion  
Liverpool John Moores University  
August 2012

## **Strategies for Growth**

### ***A research study into the progress and development of credit unions in the North East of England and Cumbria***

#### *Final Edition*

*This edition has been prepared subsequent to three launch conferences of the draft report, two of which took place in Newcastle in June and one in Kendal in July 2012.*

*The final edition takes account of the comments and the feedback from the launch conferences and from credit unions and partner organisations since the publication of the draft report.*

#### **About the Author**

Dr. Paul A Jones heads up the Research Unit for Financial Inclusion (RUF) in the Faculty of Health and Applied Social Sciences at Liverpool John Moores University. RUF undertakes academic, action and evaluative research in a wide range of areas related to the development of financial services for lower and moderate income households, money and debt advice and credit union development.

#### **About the funder - Northern Rock Foundation**



Northern Rock Foundation is an independent charity which aims to tackle disadvantage and improve quality of life in the North East and Cumbria. The foundation gives grants to organisations which help people who are vulnerable, disadvantaged, homeless, living in poverty or are victims of crime or discrimination. It also supports training, research and demonstration work and seeks to share learning from the activities it funds.

Paul A Jones  
Research Unit for Financial Inclusion  
Faculty of Health and Applied Social Sciences  
Liverpool John Moores University

*In collaboration with*  
*Stephen Hope*  
*Roehampton Business School,*  
*Roehampton University*

**August 2012**

## Contents

<b>Contents .....</b>	<b>2</b>
<b>Foreword.....</b>	<b>3</b>
<b>Acknowledgements .....</b>	<b>4</b>
<b>Executive Summary .....</b>	<b>5</b>
<b>1. Credit unions in the North East and Cumbria .....</b>	<b>7</b>
<b>2. Collaborative, reflective and action-oriented research .....</b>	<b>12</b>
<b>3. Commitment to community, fairness and inclusion.....</b>	<b>14</b>
<b>4. Credit unions under strain .....</b>	<b>17</b>
4.1 Governance .....	18
4.2 Management .....	19
4.3 Financial stability and operating efficiency .....	22
4.4 The business of lending .....	27
4.5 Attracting savings .....	29
4.6 Building the membership.....	31
4.7 Product and service delivery .....	32
4.8 Accepting the need for change.....	33
<b>5. Change and transformation .....</b>	<b>34</b>
5.1 Vision and leadership .....	34
5.2 Continuing rationalisation of the sector .....	36
5.3 Transforming management and operational systems .....	38
5.4 Product and service development .....	40
5.5 Harnessing information technology .....	45
5.6 Partnership working.....	47
5.7 The challenge of partnership working – the case of Five Lamps .....	47
5.8 Increasing credit union collaboration .....	49
<b>6. Building safe and sound credit unions.....</b>	<b>51</b>
<b>7. Recommendations .....</b>	<b>52</b>
<b>Bibliography .....</b>	<b>56</b>
<b>Appendix I. Credit unions in the North East of England and Cumbria .....</b>	<b>57</b>
<b>Appendix II. Credit union statistics.....</b>	<b>60</b>
<b>Appendix III. Research study participants .....</b>	<b>61</b>
<b>Appendix IV. Online survey completers .....</b>	<b>62</b>
<b>Appendix V. Online survey .....</b>	<b>63</b>

...

## **Foreword**

### **In Credit**

What do you do when Christmas comes? What do you do when the cooker goes into meltdown? What do you do when winter sets in hard and you want to turn the heating up? If you have managed to put a little money by to cover the unexpected expenses that life throws your way then these things shouldn't be a problem. However, for a significant minority of people with a poor credit history and no savings, the choices are limited and expensive.

Over the past 25 years, policymakers have looked to credit unions and Community Development Finance Institutions (CDFIs) to provide an answer to this problem. In the past, no regeneration initiative worth its salt would have failed to employ a credit union development worker. Central government, through its Growth Fund Programme, has encouraged third sector lenders to provide over £175 million of small instant loans (July 2006–March 2011).

In 1998, Northern Rock Foundation awarded its first grant. In the same year, a certain Paul Jones, a lecturer at Liverpool John Moores University, posed two fundamental questions to the credit union sector: was it growing? Secondly, were individual credit unions becoming economically self-sustaining? His findings were published in the highly influential paper 'Towards Sustainable Credit Union Development', which has served as a blueprint for much of the sector's development in the intervening period.

Fourteen years later, the Trustees of Northern Rock Foundation commissioned Paul to ask the same questions on behalf of the credit unions and CDFIs in the North East and Cumbria. After a decade of funding credit unions, the Foundation has learnt how complex the relationship between a funder and a credit union can be. Experience has taught us that the most successful lenders are those with a sound business model at their core. Reliance on grant funding often means they are forced to dance to a different tune, a tune which may not be to the benefit of the wider membership. We are still learning what the Foundation's funds can and cannot do.

It has always been the policy of Northern Rock Foundation to ensure that the brightest and the best minds are available to the organisations we support. Paul is one of these and we were delighted when he agreed to undertake the work. Paul's findings are challenging but he also provides a series of recommendations on which to build.

In these difficult economic times, with reduced incomes, higher unemployment and changes to the benefits system, the role of credit unions and CDFIs will become increasingly important. Government has recognised this and has produced outline plans to radically develop the sector. The Foundation is keen to listen to your views and hear your response to Paul's research. We also want to know what you want to do next and how we can best use our limited resources to ensure that the credit union sector in the North East and Cumbria has a sustainable future.

**Richard Walton**

Programme Manager  
Northern Rock Foundation

## Acknowledgements

This research study into the progress and development of credit unions in the North East of England and Cumbria was commissioned by Northern Rock Foundation (NRF) and undertaken by the Research Unit for Financial Inclusion (RUFI) at Liverpool John Moores University. It took place over a nine-month period from the summer of 2011 to spring 2012.

NRF has been a long-time supporter of credit unions in the North East and Cumbria and, over the years, has funded many development initiatives. The author would like to thank Richard Walton, NRF programme manager, who originated this study in order to reflect on progress within the sector and to identify how best credit unions could be supported in the future. Without Richard's ideas and enthusiasm, this report would not have been possible.

The author would also like to thank the members of the Northern Money steering group who offered initial support and guidance to the study, and in particular Lisa Fearn of the Fabrick Housing Group who initially facilitated this involvement. Northern Money<sup>1</sup> is an online internet portal that facilitates access to information about credit unions and community development finance initiatives (CDFIs) throughout the North East and Cumbria. Through this one portal, direct links are made to individual credit union and CDFI websites. The Northern Money steering group brings together many of the credit unions in the region and was able to facilitate the active participation of the credit union sector in the research.

Particular thanks go to Mark Studholme, who during the period of the study was the development manager of Northern Money. Mark supported the research with information and data on credit unions and was actively supportive in enabling their engagement in study.

Most importantly, the author would like to thank all the credit union directors, staff members, volunteers and support workers who took part in the research interviews and seminar, and in the launch conferences of the draft report in Newcastle and Kendal. The reflections, ideas and strategic thoughts about the future, as detailed in this report, owe everything to their willing participation in the study. Participants are listed in Appendix III of this report.

Thanks also go to the 138 directors, staff and volunteers who completed the online survey. These 138 people were from 21 of the 31 credit unions in existence in the region at the start of the project. Thanks also to the 17 credit unions that shared their annual financial returns for the years 2008 to 2010, 15 of which also shared their 2011 returns.

Finally, a special thanks to Stephen Hope, Roehampton Business School, Roehampton University, who undertook the financial statistical analysis of the submitted annual returns, and contributed to the thinking on which this report is based.

This research report was written by Paul A Jones.

*The opinions, ideas and recommendations contained in this report are those of the author, based on data generated through the research project. They do not necessarily reflect those of any participating credit union or agency or of Northern Rock Foundation.*

---

<sup>1</sup> <http://www.northernmoney.org.uk/home>

## **Executive Summary**

This research study was designed to explore the strategic options for credit unions in the North East of England and Cumbria and to identify practical actions that could support sustainable credit union growth and expansion throughout the region into the future.

### **Credit unions in the North East and Cumbria**

In 2011, there were 31 credit unions with around 34,000 members. They ranged in size from the smallest with 50 members to 4,300 members. The average membership was around 1,000 members. During the course of the study, one credit union closed and another merged, leaving 29 credit unions in the region. One credit union now has over 6,000 members as result of the merger. Asset size is also variable from £30k to £2.6 million.

In towns and small villages, credit unions are contributing to the local social and economic fabric of society. Access to a credit union is often the first step on a pathway to financial inclusion and stability. Over 14,000 Growth Fund loans totalling in excess of £6.7 million were delivered between 2006 and 2011 through credit unions in the region.

Overall, credit unions are growing in the North East and Cumbria, albeit from a modest base. Analysis indicates that overall assets were up 12%, loans up 19%, savings up 9% and membership up 14% from 2010 to 2011. Junior membership was up 22%. However, there are wide variations, with some credit unions significantly growing and others that are stagnating or in decline.

### **Leadership, governance and management**

A major advance in leadership, governance and management will be required if credit unions aim to develop into modern financial co-operative institutions with the capacity to serve many more thousands of people in the North East and Cumbria.

However, credit unions range from small traditional, volunteer-run credit unions to those that aspire to become commercial and business-oriented financial co-operatives. Not all credit unions have the same capacity or ambition for growth and there will be those that may wish to remain small community-oriented, volunteer-run organisations. However, the challenges of managing small credit unions are also significantly increasing.

For credit unions with an ambition to grow, serving a wider and more economically diverse target market will be critical to success.

The modernisation and transformation of credit unions will demand a radical financial, organisational and operational restructuring in order that they can develop the capacity and the products to serve their members effectively.

### **Major financial challenges**

The greatest issue facing the largest number of credit unions is sustainability after their current external funding has run out. In many cases, this is a matter of immediate concern.

Most credit unions have been unable to generate sufficient income directly from the business to sustain operations. Even in those credit unions where income does cover expenditure, costs are spiralling and income generation through the business is a constant concern.

High expense ratios indicate major inefficiencies in systems and procedures and a lack of modern technological solutions to drive down costs.

## **The business of lending**

Analysis shows that overall, loans averaged 50% of credit union assets, a figure that is well below the 'goal' of 70–80% advanced as good practice by the World Council of Credit Unions. There is evidence that bad debts remain a serious problem in some credit unions.

Effective lending and realistic pricing will be essential to optimise income generation and to continue to serve low-income, high-maintenance borrowers.

## **Attracting savings will be critical to long-term success**

Many credit unions are currently cash rich; but their long-term development is dependent on their ability to attract the savings of members. Most credit unions have not been able to pay a dividend on savings in 2011.

## **Products and services**

To truly excel as a co-operative financial provider, credit unions need to begin to offer a much broader and modernised range of savings and lending products. The greatest need for most credit unions is to modernise their approach to lending. The development of employment payroll deduction facilities emerged as a key challenge for many credit unions.

## **Information technology**

Providing a modern range of savings and lending products requires a substantial upgrade to credit union information technology systems. With scarce resources, this is out of the reach of most credit unions. However, many short-term wins are possible – including the introduction of payment and pre-paid debit cards and online access to account balances.

## **Credit union mergers**

Credit unions in the region are coming together through transfer of engagements. The rationalisation of the sector offers the possibility to certain credit unions to gain from economies of scale, to strengthen operations and to open up new target markets.

## **Partnership working**

Partners increasingly want credit unions that can deliver and that have the capacity to widen access to financial services for many more people. Local authorities and social landlords want credit unions to be organisations with which they can do business, and which offer a consistency in product quality and service delivery.

## **Collaboration and the challenge of change**

In interviews, most managers were open to collaborative approaches to development if these would reduce costs and improve performance and service delivery.

Credit unions that can meet the entry criteria would benefit from the DWP credit union expansion project. This would result in a step change in credit union capacity in the region.

There is a compelling case for all credit unions to move to a business model that is based on collaboration and shared services. This will depend on credit unions making a collective strategic decision to make collaboration happen.

## **Recommendations**

The report concludes with a series of 32 recommendations for credit unions, partner organisations and Northern Rock Foundation.

## 1. Credit unions in the North East and Cumbria

It was in the 1980s that credit unions first emerged within local communities in the North East of England. The first was formed on the Scotswood estate by local volunteers as part of a community project in the west end of Newcastle. At that time, Scotswood, soon to become famous in the riots of 1991, was an area of classic urban decline, poverty and multiple, interwoven social problems. Following the closure of the Vickers-Armstrong Elswick factories at the beginning of the 1980s, unemployment had risen in Scotswood to 30% and was almost 60% in the communities South Benwell and Lower Scotswood, a reality that was exacerbated by a national recession.

### ***Responding to the needs of local communities***

In response to the poverty and exclusion of these communities, a group of local people found the resilience and the strength to build their own self-help community credit union. It was a resilience that characterised much collective action in Scotswood at the time<sup>2</sup> and which provided the energy and the dynamism to create a grass-roots organisation able to engage with people alienated and marginalised from the mainstream financial system.

It was a similar story on the Cowgate estate, three miles to the north-west of Newcastle's city centre. It was here, in 1986, that the North East's second credit union was established with assistance from the local Citizens Advice Bureau. Like Scotswood, Cowgate Credit Union was organised by local volunteers as a direct response to the needs of a local community experiencing social and economic deprivation.

Both Scotswood and Cowgate credit unions were created according to a traditional or social model of development (Jones 1999). This was built on an assumption that community credit unions were de facto small localised organisations, staffed entirely by volunteers, operating in a small geographical area and designed to serve, at the most, a few hundred members. They were regarded as the cause and effect of a strong sense of community identity and were promoted as manageable by volunteers at a local level.

Throughout the 1990s, credit unions such Scotswood and Cowgate<sup>3</sup> inspired volunteers to open similar community credit unions in low-income communities throughout the North East. East Youth and Community Association (Sunderland) Credit Union Ltd opened in 1987, South Shields (Town Centre) Credit Union opened in 1988 and TBN Credit Union in Middlesbrough in 1990. Exactly how many credit unions were established in communities throughout the North East is not recorded in the literature, but there were certainly many. There were five in South Shields alone and at least eight, if not more, in Newcastle. All adopted the same social model of development.

### ***The traditional model of development strong in the North East***

In fact, the traditional social model of credit union development was particularly strong in the North East. Maybe this was connected to a strong sense of localism in communities,

---

<sup>2</sup> Cf. Action for Change a film archiving project that has gathered many stories of urban change from the West End of Newcastle cf. <http://archiveforchange.org/about/>

<sup>3</sup> For the record, it was an article in *The Guardian* (circa 1986) on the creation of Cowgate Credit Union that inspired a group of volunteers in Hattersley in Tameside to develop the first community credit union in Greater Manchester.



heightened and reinforced by a sense of self-help and reliance in the face of the adversity and poverty. Towards the end of the 1990s, when the validity of the social model was questioned and a new professional, market and business-oriented model of credit union development began to emerge in the national credit union movement (Jones 1999, 2001), there was significant challenge to this new model development in the North East.

Concerns about a more professional and business approach, for example, were expressed by academics at the University of Northumbria. Fuller and Jonas (2002) argued that *“there are many in the movement who believe that in taking steps towards this more economically oriented outlook, the basic notion of what a credit union is in itself is being explicitly eroded”*. Rather than pursue a commercial business model of development, these academics argued for a collectivised model of an alternative and locally embedded form of personal financial service that would retain a strong sense of local control by volunteers in the community.

This approach inspired in 2002 the development, for example, of the Financial Inclusion Newcastle project in the west end of Newcastle (Fuller et al. 2003). In this project, four small community credit unions were grouped together and offered back office support in an endeavour to create a sustainable participatory, community-based model of delivering financial services (Fuller and Mellor 2008). This approach appealed to many activists in the North East as it seemed to offer the opportunity to retain local volunteer control and engagement without having to move *“away from their more social (idealist) roots, and towards their more economic (instrumentalist) guise”* (Fuller and Jonas 2002).

### ***Many traditional model credit unions ultimately unsustainable***

In reality, the majority of these community credit unions remained very small and most were ultimately unsustainable, as was the Financial Inclusion Newcastle project itself which failed to survive beyond its three-year funding period (Fuller and Mellor 2008). In 1999, after over 12 years of development, Cowgate Credit Union had recruited only 40 members and Scotswood 163 (Jones 1999). Through the next decade, many of these small credit unions disappeared, including Scotswood and Cowgate. Some closed, but most transferred into other neighbouring credit unions. Bridges Community Bank (South Tyneside Credit Union), for example, is the result of a merger of five credit unions, and Moneywise Credit Union accepted the transfer of eight credit unions when it changed its common bond from serving council employees to all who lived or worked in Newcastle. Darlington Credit Union was also the outcome of a coming together of three credit unions. The rationalisation of the credit union movement became widespread as many credit unions throughout the region accepted the transfer of engagements of other smaller credit unions.

### ***Credit union development in Cumbria***

In Cumbria, the development of the credit union movement happened later than in the North East. The first credit unions, Cleator Moor, Millom and Walney Island (now closed), opened in 1995, followed a few years later by Whitehaven and Egremont Credit Unions. Maryport and Workington Credit Unions were established early in the new millennium, and the last to open was Carlisle Credit Union in 2005.

All Cumbrian credit unions were established in the traditional manner by volunteers with a strong social and community focus, but clearly not with the very small common bond areas of the original North East credit unions. Most covered large rural areas and the idea of a common bond for a very small neighbourhood was just inapplicable. However, it was not long before the same process of rationalisation started to take place in Cumbria too; with

Whitehaven and Egremont and District Credit Unions coming together to form Whitehaven, Egremont and District Credit Union in 2010, and Maryport and Workington Credit Unions becoming Allerdale Credit Union Ltd in the same year.

### ***29 credit unions now in the North East and Cumbria***

This process of credit union development over more than 20 years has resulted, in 2012, in 29 community open common bond credit unions now operating in the North East and Cumbria (see Appendix I). However, at the outset of this study, there were 31. In 2012, Wearside First Credit Union transferred engagements into Bridges Community Bank (South Tyneside Credit Union) and Pallister Credit Union<sup>4</sup> was closed through the action of the Financial Services Authority.

The 31 credit unions operating in 2011 ranged in size from the smallest with just 50 members to the then largest, Moneywise Credit Union, with 4,300 members and £2.6 million in assets. 13 credit unions had over 1,000 members, with 4 having over 2,000 members. 18 of the credit unions had fewer than 1,000 members.

The existence of many small credit unions owes much to the historical development of the traditional social model in the North East. Most, but not all, traditional social model credit unions merged into others; a number have survived. Shildon Town, Shiremoor and Shiney Row Credit Unions, for example, continue practically unchanged since they were started and still have fewer than 100 members. The credit unions in Redcar and Cleveland and in Middlesbrough also demonstrate many of the aspects of social model credit unions, but have been able to grow their memberships into the hundreds. TBN Credit Union is still entirely voluntary-run, for example, and by some of the same volunteers that started the organisation over 20 years ago. They are still inspired to offer a local, accessible and community service to members they know and understand. They survive through the actions of a small group of committed individuals and/or with the support of external grant funding. In Redcar and Cleveland and in Middlesbrough, they have also been supported by the staff of external support agencies.

### ***The move to a new model of credit union development***

Other credit unions have aspired to move beyond the traditional social model and become more commercial and business-oriented financial co-operatives. This move to new model development (see Jones 2004) has often gone hand-in-hand with credit union mergers, the opening of new premises, the hiring of staff and a more professional rebranding of the new institution. It has been mostly these credit unions that have managed to grow their membership into the thousands. In most cases, however, this growth has been significantly supported by external grants, in-kind support covering essential costs and, in the case of 9 or 10 credit unions, through the investment of the Financial Inclusion Growth Fund. As these credit unions have grown larger, and outgrown the capacity of solely volunteer management, many have been unable as yet to free themselves from dependence on some level of external financial support. One or two credit unions, however, have shied away from receiving external grant aid and have managed to cautiously develop the business. One example is Gateshead Credit Union, which now serves over 1,000 members.

---

<sup>4</sup> In April 2012, the FSA removed Pallister Credit Union's permissions for regulated activity and prohibited the credit union from making loans and carrying out other financial transactions for having inaccurate capital reserve figures and for reporting negative capital for the quarter ending December 2011.

### ***Credit unions are growing in the region, but from a relatively low base***

Overall, credit union membership is growing in the North East. For the 17 credit unions for which 2010 and 2011 data were available<sup>5</sup>, assets were up 12%, loans up 19%, savings up 9% and adult membership up 14% in the year 2010 to 2011. Junior membership was up 22%. These 17 credit unions include the 5 largest credit unions and it is a fair assumption that they are indicative of growth throughout the region as a whole (the group of 17 also includes 9 credit unions that were delivering the Growth Fund in 2011). In relation to other regions of the country, growth percentages for the financial year 2010–2011 are similar in terms of assets and savings but not in terms of membership. Nationwide, in the year 2010–2011, assets were up 15%, savings up 11% and membership up 7%<sup>6</sup>. Adult membership growth is twice the national average.

Three points need be borne in mind when assessing growth in the region. First, overall growth is starting from a relatively low base, so percentage growth can be misleading. The largest credit union (in 2011) with 4,363 members remains relatively small in comparison with credit unions in other major urban conurbations<sup>7</sup> (cf. Ellison and Jones 2011). Furthermore, many of the smaller credit unions in the region still remain very small, with little or static growth.

Secondly, these overall percentages mask wide differences in growth among the 17 credit unions. One credit union grew its assets by 56% and another's decreased by 17%. One credit union grew its membership by 81% and another's declined by 28%. Within the group of 17, from 2010 to 2011, three credit unions experienced a decline both in assets and in membership and two more a decline in membership. The assets of the largest credit union only grew by 1.4% and membership declined by 3%.

Thirdly, it is important to recognise the significant impact of the Growth Fund on the overall asset and loan growth. The nine credit unions<sup>8</sup> in the group of 17 that delivered the Growth Fund up to 2011 grew in assets by 20%, in loans by 35%, in savings by 17% and in members by 25% in the year 2010 to 2011. It is important to note the above average increase in savings as well as loans. Of course, this Growth Fund capital investment and revenue support will not be there into the future.

### ***Research into the long-term future of the regional credit union system***

It was a concern about the long-term future of the credit union system in the North East and Cumbria that prompted Northern Rock Foundation to commission this research study. Despite growth in individual credit unions, many credit unions were reporting that they had not yet managed to build the business sufficiently to generate adequate income from lending

---

<sup>5</sup> These 17 were Allerdale, Bridges, Carlisle, Cleator Moor, CUSEN, Durham, Gateshead, GLEN, Hartlepool, Millom, Money Tree, Moneywise, Northern Oak, Prince Bishops, Tees, Wearside, and Whitehaven, Egremont and District, – see Appendix II and also the explanation of statistical analysis in chapter 2.

<sup>6</sup> National statistics supplied by ABCUL. These statistics did not include loans made.

<sup>7</sup> In 2012, with the merger of Bridges and Wearside First Credit Unions, the largest credit union in members is now Bridges Community Bank with a combined membership of over 6,000. However, Moneywise Credit Union still remains the largest credit union in relation to assets. This probably reflects the lower income base of Bridges Community Bank in relation to Moneywise, which retains a large payroll membership.

<sup>8</sup> These nine were Allerdale, Bridges, Carlisle, Cleator Moor, CUSEN, Millom, Northern Oak, Wearside, and Whitehaven, Egremont and District Credit Unions.

to cover ever-spiralling costs. Current difficulties in assuring continued external grant funding are placing some credit unions in a very precarious position. Added to this, the increasing complexity of developing a modern financial institution, with demanding regulation and quality standards, has resulted in credit unions realising that they have to scale-up in ways that require even greater investment and resources. Identifying strategic ways forward for the credit union system as a whole was the challenge presented to this research study.

***A focus on open common bond credit unions – but recognising the role of employee credit unions in the region***

This study concerns solely credit unions with open common bonds that are able to serve everyone who lives, or works in a particular locality. Based in the North East there are also three closed common bond credit unions that only serve people working in a particular industry or profession, or for a particular employer. The three are the Great North Two Thousand (Transport) Credit Union that serves passenger transport employees throughout England and Wales, the Police Credit Union<sup>9</sup> that has a branch in Newcastle, and North Tyneside Council Credit Union for employees of that local authority. All of these credit unions have significant membership within the North East.

It is important to note that employee credit unions often serve much of the same target market and face many of the same issues as open bond community credit unions. Great North Two Thousand (Transport) Credit Union, for example, has around 900 members in the North East. These are primarily drivers (80% to 85%), all who are on low to moderate incomes, and the cleaning and engineering staff (10%) on even lower incomes.

---

<sup>9</sup> Northumbria Police Credit Union Ltd was established in 1988 in Newcastle upon Tyne. It subsequently merged into the national Police Credit Union Ltd.

## **2. Collaborative, reflective and action-oriented research**

The overall aim of the research study was to explore the organisational and financial strength of credit unions in the region, to examine the current issues they face as financial institutions and to identify strategies for growth within the sector.

The research was designed to engage credit union directors, staff and volunteers in a collaborative and co-operative inquiry in which they were enabled to share and reflect upon their experience of credit union organisation and management, in a way that would inform the development of credit unions as viable and effective financial institutions. The study aimed to focus on action and the potential for change throughout the sector.

### ***Objectives and methodology***

The study had three central objectives:

- To explore the strategic options for credit unions in the North East and Cumbria and to identify practical actions and interventions that could support sustainable credit union growth and expansion throughout the region
- To assess the appetite for growth, transformation and change within the sector and for possible collaborative approaches to strategic development
- To identify the blocks and barriers to strategic development within the sector and ways of overcoming these in the short and medium term.

The research study methodology had several key elements

- Engagement with the Northern Money steering group. This group, which brought together representatives of credit unions across the region, contributed to the direction of the study and facilitated its implementation.
- An online survey (see Appendix V) that was open to all credit union directors, volunteers and staff members in the North East and Cumbria. 138 people from 21 credit unions and one development agency participated in the online survey. These included 65 board members, 34 paid staff (includes three development workers), and 39 volunteers. The high involvement of women in the credit union movement was illustrated by the fact that female respondents counted for 62% of all respondents, 67% of volunteers, 71% of paid staff, and 54% of board members.

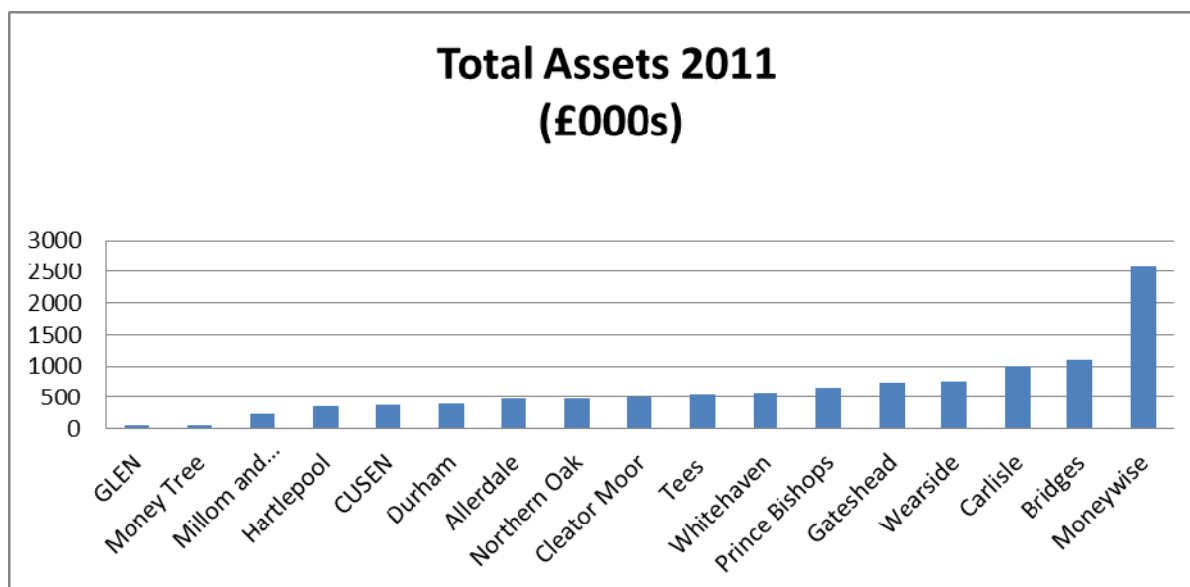
The original target was to engage 300 respondents from all the 31 credit unions operating at the start of the project. However, engaging some of the smaller credit unions proved difficult. This may have been because of a lack of capacity in mostly volunteer-run credit unions or, in some cases, a lack of interest in the research project outcomes. However, the fact that 21 credit unions participated in the study, out of a possible 31, a 67% return, did indicate a significant and often high-level interest in the research from most credit unions in the region.

- Semi-structured Interviews with directors and managers in credit unions in different locations throughout the region. In the event, the study engaged 33 people from 18 credit unions, one CDFI and four support/development agencies in face-to-face

interviews or group sessions (see Appendix III). One additional meeting also took place with four people from the credit union study group<sup>10</sup> in Barrow-in-Furness.

- Statistical analysis of credit union annual financial returns. 17 credit unions submitted returns for the years 2008–2010, 15 of which also submitted returns for 2011. Due to organisational difficulties, 2011 audited returns were not available for Allerdale Credit Union and Millom and District Credit Union. Allerdale Credit Union supplied unaudited 2011 figures from its own records and these have been included in the 2011 statistical analysis. The charts in the report reflect the 2011 financial position of credit unions (see Chart 1), except for Millom and District Credit Union which is still included but with its 2010 figures. However, the figures in Appendix II include unaudited 2011 figures for Millom and District Credit Union. These figures have not been used in charts, as they arrived too late for analysis, but have been used in the text of the report where statistical growth is noted.

**Chart 1. Assets size of the 17 credit unions for which annual returns were available.**



NB: In Chart 1, the 17 credit unions sampled had assets averaging around £650,000 and just over £10.5 million in total; although as the chart shows they range from the small, GLEN with total assets of just under 60K to Newcastle Moneywise with total assets approaching £2.6 million. Some of the smaller credit unions have benefited substantially from DWP Growth Fund monies, although in 2011 there were only three credit unions with assets of £1 million: Carlisle (just under £1 million), Bridges, now combined with Wearside Credit Union, and Moneywise Credit Union.

The figures for Millom and District Credit Union are for 2010 not 2011, as the 2011 figures were not available at the time of the publication of the report. Unaudited figures for Millom are to be found in Appendix II.

<sup>10</sup> A study group is a group of people working towards the establishment of a credit union. Study groups are registered with the FSA before proceeding to credit union registration.

### **3. Commitment to community, fairness and inclusion**

In research interviews, it was clear that directors, staff members and volunteers were committed to the development of financial services for those on low or modest incomes. For many this was the primary purpose of being involved in the credit union. Similar to the early pioneers of the regional credit union movement, a sense of commitment to community, to fairness in the delivery of financial services and to the inclusion of those marginalised by mainstream banking, was strong among both volunteers and staff members.

#### ***Competing discourses on credit union purpose***

The prime motivating factor for credit union engagement was often presented in terms of serving the less well-off. This emerged clearly, for example, among the group of people working to establish a new credit union in Barrow-in Furness. For them, and for a large number of those interviewed, credit unions were still a vehicle to tackle poverty, exclusion and disadvantage. As one participant from Cumbria noted:

*“The services we offer are to benefit the lower end of the market, if we become too much like banks then the whole ethos of the credit union is lost.”*

However, the online survey revealed that there were nuanced or competing discourses among participants when it came to explaining exactly who credit unions were for, and which target markets they should be serving. As Table 1 illustrates, from the online survey, 56% of board members and 53% of volunteers considered that the prime purpose of a credit union was to serve members who are financially excluded or living on a low income or welfare benefits. But 40% and 29% respectively took a different view and prioritised the purpose of a credit union as serving an economically diverse membership, drawn from all sections of society. This latter view was slightly stronger among managers and staff members, 50% of whom considered that the prime purpose was to serve an economically diverse membership. 41% considered the prime purpose as serving the financially excluded.

Of course, it could be argued that there is no competition in the discourse between serving the financially excluded and, at the same time, a more economically diverse membership. Credit unions, it can be maintained, do serve both target markets. However, it can also be argued that the predominating assumption about which the market is being primarily served impacts on the marketing and promotion of the credit union, on the development of its products and services, and on the culture of the organisation itself. A strong primary focus on serving the financially excluded can result in an organisation not putting sufficient energy, thought and enthusiasm in expanding the credit union among a more diverse marketplace.

Interestingly, in the assessment of the prime target market, there are marked differences between individual credit unions. Among the three largest credit unions, for example, 75% of the respondents (n12) from Carlisle Credit Union considered the primary purpose was to serve a diverse membership, whereas 91% of respondents (n11) of Bridges Community Bank considered it was to serve the financially excluded. As might be expected in a credit union with many employee payroll members, 57% of Moneywise respondents (n14) considered that the primary purpose was to serve a diverse membership and 29% to serve the financially excluded. Similarly, among those credit unions delivering the Growth Fund,

56% of respondents (n89) saw the main purpose of a credit union to serve the financially excluded and 34% to serve a wider, more diverse market.

**Prime competitors are sub-prime lenders**

When it came to a perception of which financial providers are the main competitors of the credit union, however, 91% of all survey respondents (n138) considered the prime competitors to be sub-prime lenders. 70% of all respondents (n138) regarded home credit to be the single most significant competitor of credit unions. This was the case even from the respondents from the three largest credit unions in the region, 64% of whom saw home credit companies as their main commercial competitor. Only 9% of all respondents (n138) saw banks or credit cards to be the main competitor of a credit union. The conclusion must be that many of those who considered that the primary purpose of a credit union is to serve a more diverse market still recognised that credit unions were operating mainly in the low-income market.

**Table 1. Prime purpose of a credit union – survey responses**

	Board members n65	Managers and staff n34	Operational volunteers n39
To serve an economically diverse membership, drawn from all sections of society	40%	50%	29%
To serve members who are financially excluded or living on a low income or welfare benefits	56%	41%	53%

**Strong focus on local community engagement**

Interviews also revealed a strong focus on local community engagement and on the development of partnerships and networks with local authorities, social housing providers and a range of community organisations. Partnership working was seen as essential, not only to widen the reach of credit unions to new members, but to ensure that the institution remained embedded within local social and community networks.

Most credit unions operated local collection or service points in the community, in premises often provided free of charge by partner organisations. These included community centres, housing offices, libraries, children’s centres and DWP Jobcentres. Engagement in schools was often regarded to be of high importance, on the grounds that high visibility in schools strengthened the credit union’s base in the community. On a number of occasions, credit union managers said that they continued with community collection points or with work in schools even when they knew the activity was non-income generating. Engagement in the local community was a sufficient reason to support a local community service. Even for the most ambitious credit unions, strengthening local links through such activity was important. As one manager argued:

*“Our biggest strength is that we are not like a bank, we are someone you can build a relationship with.”*



### ***Support from local authorities and social landlords***

Among partner agencies, in many credit unions, there is a high level of support from social landlords. In a number of places, housing associations are the key supporter and sometimes funder of the credit union system. This is the case in Cumbria where Derwent and Solway Housing Association provides a support and development service for a group of credit unions, and also in County Durham where Derwentside Homes offers significant support to Prince Bishops Credit Union. In Sunderland, the Gentoo Group has taken a lead role in supporting Wearside Credit Union and its transfer into Bridges Community Bank, and is represented on the new credit union board. The same is true in Carlisle Credit Union, where significant advice and assistance is received from Riverside Carlisle, which also has representation on the board of directors.

In some areas, it is the local authorities that have taken a lead in substantially supporting the credit union sector. This is true in Redcar and Cleveland, and in Middlesbrough, for example. It is also true in Cumbria, where Cumbria County Council agreed in 2012 to maintain funding of the regional credit union movement at £100k per annum until 2014.

The support of social housing providers and local authorities does, however, present credit unions with some significant challenges. Both local authorities and social housing providers no longer wish to see themselves as supporters of fledgling, weak credit unions but, rather are seeking to work with credit unions with the organisational capacity to deliver quality financial products and services to tenants and local residents (Ellison and Jones 2011). They are looking to credit unions to be active participants in mutually beneficial programmes, particularly in response to forthcoming welfare reform.

## 4. Credit unions under strain

From statistical returns and direct reports from managers, it is estimated that there are around 34,000 credit union members in 29 community open common bond credit unions in the North East of England and Cumbria. These credit unions offer their members affordable and accessible savings and loans products within their local community. The value that these credit unions bring to families and individuals throughout the region should not be underestimated. In towns and small villages volunteers and paid staff members are contributing in a real way to the local social and economic fabric of society. And in many communities, access to a credit union is the first step on a pathway to financial inclusion and stability. To this end, over 14,000 Growth Fund loans totalling in excess of £6.7 million were delivered between 2006 and 2011 through credit unions in the region.

### ***The demands of developing a local community financial service***

However, developing a community financial service at the local level is demanding, time consuming and challenging. Indeed, the strongest theme to emerge from nearly all interviews with managers and board members, apart from with Moneywise in Newcastle, concerned the strain that many credit union directors and staff feel they are under in managing the business. Of course, this strain was often experienced differently. Smaller credit unions were struggling with insufficient capacity and resources to provide a quality service, with many directors unsure of the way forward. Middle-sized credit unions operating with paid staff were worried that they were generating insufficient income to maintain the credit union and were finding it increasingly difficult to identify external financial support to carry on into the future. There were some credit unions, both small and moderate-size, whose managers reported that they were unsure how they could continue to operate without external funding particularly within the short term.

Even in those credit unions that were managing to balance or near balance the budget, with some external financial support, the current model of development was under severe strain in many places. Processes and systems were often outdated and inefficient and credit unions mostly lacked the technology to offer a modernised financial service to their members. Volunteers were often overworked, and paid staff both overworked and underpaid, for the challenging work they undertook. Often the responsibility for the credit union fell on the shoulders of a small group of people, who had to cope with the increasing demands of new regulation and the complexity of running a financial business. Key person risk appeared to be high, certainly for the longer-term development of the credit union.

### ***Moderate satisfaction levels***

The result was that there were only moderate satisfaction levels among respondents to the online survey with the development of their credit union. Only 17% of board members reported to be very satisfied with growth in members, 15% in growth in loans, 22% in growth in savings, 38% in quality of service to members, 17% in serving a diverse membership and 30% in serving the financially excluded. The number reporting that they were quite satisfied was higher but overall satisfaction was certainly tempered. All that these respondents wanted to achieve was being held back through a lack of organisational capacity.

The stresses and strains of the current credit union development model appeared predominantly in the following eight areas:

## 4.1 Governance

Credit union success or failure is fundamentally a board or governance issue. Thriving credit unions are characterised by the clarity of purpose, leadership, financial understanding and business competency of a group of directors. A lack of director ability to ask the right questions, to spot opportunities and to identify problems as they arise can lead to severe difficulties within credit unions.

In the interviews, there were varying experiences expressed of competence in governance at board level. There were some boards that were weak, which were often maintained by one or two key individuals, or even a staff member or development worker. Other credit unions reported boards that had attracted a range of skilled, professional and qualified people who were able to contribute effectively to the strategic direction of the credit union.

### ***The changing nature of board volunteering***

In traditional social model credit unions, the majority of the board would have been member representatives of the community, who believed in the credit union and in what it could do for their community. However, as credit unions have developed, the nature of board volunteering has changed, with credit unions seeking to recruit skilled persons with professional knowledge and expertise.

Some of the board chairs interviewed were undoubtedly credit union leaders and their credit unions owed much to their level of drive and entrepreneurial spirit. In general, however, there was a concern noted in most credit unions about the long-term engagement of board members and the possibility of attracting and retaining sufficient directors with the skills and expertise required to develop more professional and business-like organisations. Even on the strongest board there were often significant skills gaps.

In the online survey, 82% of directors and managers stated that finding a sufficient number of skilled board members was a current major threat to the credit union, and 40% rated this threat as high (see Table 2 below) and 42% rated it as medium.

In reality, recruitment and succession planning is problematic in many credit unions. An analysis of the annual returns of 13 credit unions where data was available revealed that the average age of the board and supervisory committee in 8 credit unions was 60–69 years, in 3 credit unions 50–59 years and in 2 credit unions 70–79 years. These data demonstrates the relatively mature nature of boards in general; there was no one under the age of 30 among the 126 board and supervisory committee members, 58% of whom were women, in the sample. At first sight there would seem to be a real need to attract younger board members to widen the appeal of the sector.

The numbers of people on boards of directors also varies significantly: the smallest being 5 and the largest 14. This emphasises the ‘key person risk’ that many small credit unions face.

### ***Strong correlation between credit union success and board recruitment***

In the interviews, there seemed to be a strong correlation between the success of the credit union as a respected local financial institution and the ability to recruit to the board. The more a credit union was known and valued in the community, the more people wanted to be part of it and contribute to its development. The more it was regarded as marginal and weak, the harder it was to find people get involved. Whilst this left some interviewees despondent, it left others feeling quite optimistic about the future recruitment of volunteer directors.

Overall, the issues related to the development of good governance surfaced as a key issue among most credit unions. Board training or mentoring was often minimal or absent and some credit unions noted the need for expert technical assistance in board planning and development. A particular question arose in at least two or three credit unions and this related to the relationship between governance and management; this does not seem to be well understood, even in some of the more progressive credit unions. There appears here scope for the direct support of technicians on company release from banks, financial institutions and other agencies.

## **4.2 Management**

In many of the credit unions, with some exceptions, managers reported strains on the day-to-day operational capacity to manage and expand the business. Credit unions mostly could only afford to employ small staff teams, often with external grant funding, which were then often overstretched with insufficient resources, particularly at busy times. The credit unions in Cumbria were regularly under pressure, given that there are only five full-time paid staff members in the whole of the county.

Tees Credit Union operates, for example, with a full-time manager and accounts assistant, a part-time accounts officer and compliance officer. These three full-time equivalent staff members have the responsibility for the operation of the business. Such small teams have to cope with gaps within the staffing structure, a lack of middle management support, and the high expectation to deliver a quality financial service.

### ***The role of volunteers***

Given the small numbers of paid staff, there is a high dependence on operational volunteers throughout the region. For the most part, this is regarded as a two-edged sword. Engaging committed operational volunteers was seen by many as a strength as it preserved links and networks within local communities. In the online survey, 51% of board members and 48% of paid staff members considered that engaging volunteers assisted growth.

However, on the other hand, 37% of board members and 33% of paid staff members felt the dependency on volunteers hindered credit union growth. As also reported in interviews, these directors and managers considered that, despite their evident commitment, volunteers in general do not have the same professional skills and expertise as employed staff. There was also the concern expressed that volunteers were often not held to account in the same way as paid staff members. Throughout all interviews, the calibre of volunteers was a constant issue.

As some managers reported, the co-ordination of volunteers is also often a challenge in itself. It is time consuming and resource intensive, and in many cases, the community collection points staffed by volunteers did not bring a net income into the credit union. Given these complexities, some of the larger credit unions are endeavouring to move away from dependence on operational volunteers, even though this is not feasible in most cases.

Managers often spoke of the classic conundrum; they needed more staff to grow the business but could not afford to hire the staff until the business grew. However, what was more of a strain for managers was the realisation that the business was not generating sufficient income to maintain even the present staff team. Apart from Moneywise, all credit

unions were dependent on external subsidy to balance the books, and their greatest concern was often to ensure new funding was in place to preserve the operation of the credit union.

This situation highlighted a major management issue in many credit unions; the business was just not growing fast enough to generate sufficient income to cover costs. This was linked to a range of different complex realities within the credit union, but it also linked to the fact that management systems and procedures were often outdated and inefficient. In the more ambitious credit unions, greater attention was being paid to organisational systems and the development of more efficient management structures. But in reality, this was few and far between. Credit unions often lacked the resources or the expertise to carry out a rigorous systems analysis aimed at improving the efficiency of the business.

### ***Development agency support***

In Cumbria, in Redcar and Cleveland, and in Middlesbrough, external support or development agencies have offered direct staffing support to manage the credit union business. In Redcar and Cleveland, the Credit Union Development Agency acts as the staff team for at least two credit unions. In Middlesbrough, Community Ventures (Middlesbrough) Ltd has offered management and administrative support to the group of credit unions operating in the town through the services of a development and support officer.

### ***DRAMA team support in Cumbria***

Debt Rescue and Money Advice (DRAMA) partnership was created in 2005 by a group of housing associations, advice agencies and credit unions in response to the problems created in low-income communities through the lending activities of home credit companies and other high-cost alternative lenders. The aim of the partnership was to develop access to appropriate financial services for financially excluded individuals with a priority on instant affordable lending.

By 2007 the Financial Inclusion Growth Fund had been established. But the DWP decided that it was unable to contract with any one particular Cumbrian credit union as it felt that none of them at the time had the size, capacity or systems in place to handle a contract on its own. Following a conversation at a DWP event between the DWP, the Director of Derwent and Solway Housing Association (DSHA) and the Treasurer of Cleator Moor Credit Union, the DWP agreed that they would support a bid from a consortium of Cumbrian credit unions with the housing association acting as the main contract holder; handling the capital and contract administration on behalf of a group of the credit union. However, the credit unions would still have to handle Growth Fund credit administration and loan recovery themselves. This arrangement started in October 2007.

By 2009, the DWP Growth Fund loan contract was underperforming on loan volume and on default rates due to the credit unions struggling to meet the demand for the loans and to manage the administration involved. The Contract Manager at the DWP gave a notice to improve to DSHA, with the threat of the contract being revoked if improvements were not made month on month. In some credit unions there was up to 82% loss on the overall Growth Fund loan book, due to poor credit administration and lack of adequate controls.

In 2009, DSHA established a centralised team to support the credit unions to develop systems, procedures and controls to handle the credit administration and loan application processes more effectively, and to be involved directly in operational administration of lending and debt recovery.

By 2010, Growth Fund delivery had stabilised and contract performance was within acceptable levels. DSHA then developed a working partnership with CART (Cumbria Asset Reinvestment Trust), a Cumbrian-based CDFI, to enable Growth Fund lending in the three areas of the county (Barrow, Eden and South Lakeland) where there was no access to instant affordable lending to financially excluded individuals. During this period, credit union study groups were also established in each of these areas with the aim to take on instant affordable lending upon operation of a credit union. CART has no business interest in pursuing personal lending to low-income households and is not seeking further capital to do this. The Growth Fund arrangement with DRAMA was always seen as temporary until credit unions were established where there were gaps in coverage. A credit union development worker was also employed by DSHA to work alongside the DRAMA Team to support the development of the new credit unions in Barrow, Eden and South Lakeland.

The focus of the DRAMA partnership is to assist the establishment of an autonomous network of credit unions, housing associations and advice agencies to improve access to appropriate financial services in Cumbria. Now DWP Growth Fund contracts have ended, it is accepted that the role of the DRAMA team in supporting administration of credit union instant lending is not a sustainable position long term. Credit unions need to take control of credit administration and credit control themselves, as indeed some have done. For example, Carlisle and Whitehaven, Egremont and District Credit Unions now undertake their own growth fund lending administration, but in a much better position than when they first came into the DRAMA team project

Your Housing Group, of which DSHA is a subsidiary, is committed to supporting the credit union sector but does need the sector to scale up and deliver quality, accessible services to many more of its tenants, particularly important now with the introduction of Universal Credit. What exact role the central team will play in the future is not yet determined. There have been conversations on providing a back office function to the group of credit unions or to a newly created Cumbria-wide credit union if the merger process comes to fruition. Your Housing Group does envisage the role of the DRAMA team changing over time.

### ***Development agencies and the issue of autonomy***

A key internationally recognised factor in credit union success (Richardson 2000a) is self-governance and autonomy. Credit union boards need to understand and be in control of the business for themselves.

External development agencies can enable credit unions to function and to develop the business. However, they can also create dependency which can result in credit unions not developing into autonomous, sustainable and stable organisations. In a number of cases in the North East and Cumbria, there is a concern that some credit unions are overly dependent on external agencies, to such an extent the future of the credit union has become now intimately linked with the future of the development agency, the funding of which in some cases is under threat.

Dependence on an external agency can also skew the relationship between governance and management in a credit union. The board cannot control an external agency, on which it is dependent, in the same way as it should control its own staff.

As in the case of DRAMA above, the focus of an external agency must always be on the autonomous and independent development of a credit union. After being a member of DRAMA for several years and with the development of rigorous credit administration and

debt control systems, Carlisle Credit Union eventually decided that it could manage its own Growth Fund loan book. In interview, Carlisle participants reported that they felt much better able to control the delivery of the Growth Fund once they were responsible for the administration themselves. In fact, after taking control, Carlisle Credit Union was able to significantly reduce bad debt on its Growth Fund loan book. Whitehaven, Egremont and District Credit Union has also increasingly taken control of its own Growth Fund loan book, which is seen as a positive outcome of its involvement with the DRAMA team.

### **4.3 Financial stability and operating efficiency**

As already referred to in the last section, the greatest issue facing the largest number of credit unions in the region is their sustainability after current external funding has run out. This may be funding from local authorities, social housing providers or charitable trusts and foundations, or that gained through the delivery of the DWP Growth Fund. Credit unions with external funding through the Growth Fund may have capital for on-lending but which could be converted to revenue if necessary to support the business for a few years into the future. But this would still leave them in the uncertain position of assuring financial stability after this funding runs out. Depleting capital to cover revenue costs also reduces the potential of the credit union to maximise income through the lending of this capital to members.

#### ***Spiralling costs and the generation of sufficient income***

The reality is that most credit unions have been unable as yet to generate sufficient income directly from the business to fully sustain operations. Even in those credit unions where income does cover expenditure, costs are spiralling and income generation through the business is a constant concern. In the largest credit union, for example, 70% of income is spent on staffing, which leaves little to pay a dividend on savings, to build capital reserves and to invest in the growth of the business. Administrative expenses in credit unions on average account for around 65% of the total income, with bad debt write-offs 13%, and auditing and insurance costs, 10%, making up most of the rest.

#### ***Loan income as a percentage of total income***

Chart 2, on the next page, shows loan income as a percentage of total income for the 17 credit unions in the sample. The average income in the group in 2011 was around £100K, with loans income on average just over 35% of this. However, the percentage for the individual credit unions varies considerably as the chart shows, and there is no clear, simple pattern between size, as measured by assets, and the extent to which loan income drives total income. The smallest credit unions, Money Tree and GLEN, had ratios of more than 75% of income derived from loan income, as did the largest, Moneywise; for those in-between the percentage varied from 10-15% loan income to total income for CUSEN and Whitehaven Egremont and District, to over 90% loan income to total income for Gateshead.

The red section of the bars in Chart 2 gives an indication of the reliance on grants and other sources of funding. Some caution is needed, however, in interpreting the figures in Chart 2 given that they relate to a year in which Growth Fund monies were being added to (and accounted for) in the balance sheets of participating credit unions. It has had the effect of depressing the proportion of loan interest dramatically for Carlisle and Whitehaven Credit Unions in particular. With the end of the Growth Fund, the income of these credit unions will become more dependent on loan interest from members in future years. It is to be noted also that in the case of some credit unions, such as in Money Tree and GLEN, costs of

staffing support are met off-balance sheet and thus virtual in-kind grant income does not appear on the balance sheet.

**The problem of bad debt**

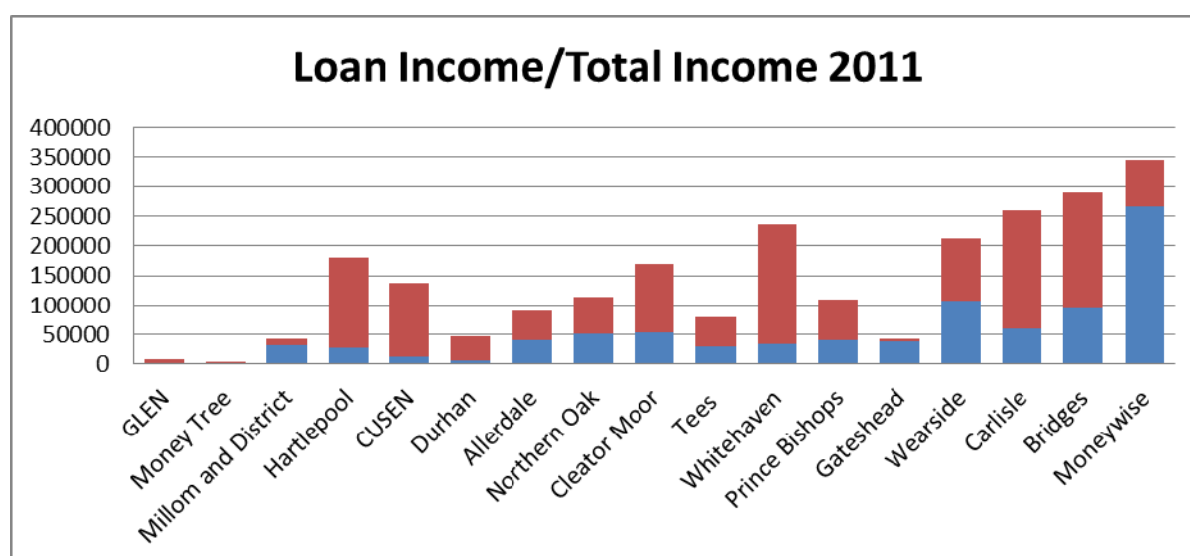
From statistical analysis of returns, there is evidence that bad debts remain a serious problem. In 2010, more than half of those studied wrote-off loans amounting to at least 10% of their income, and for six credit unions the figure was more than 20%. In 2011 a majority of those for whom data was available again wrote off 10% or more of income because of delinquent loans. Controlling bad debt is a major issue for many credit unions – this can arise from poor lending decisions or from a lack of adequate credit controls.

There is no obvious sign that this is becoming less of a problem: bad debt provisions, monies that the regulator requires credit unions to set aside because of payment arrears and the likelihood that some of the loans may subsequently have to be written off, were on the rise for a majority in the financial year that ended September 2011. Given the extent to which the sector needs to bear down on its costs to give individual credit unions the prospect of becoming self-sustainable, the need to manage bad debts going forward is plainly critical: losses and provisions continued on the current scale will challenge both the profitability and viability of an increasing number. It is to be noted that one of the contributory causes of the failure of Pallister Credit Union during the period of this study was high bad debt levels.

Also to be noted is that, in many cases, write-off on DWP Growth Fund loans was overall very high – in at least one case 50% of the loans made were written off. However, on a positive note, the DWP did record how credit unions had improved credit control and debt recovery during the period the Growth Fund was in operation.

However with, and only with, the support of external grant income, most credit unions were trading at a profit, typically around 3% of income.

**Chart 2. Loan income to total income (£'s) 2011 (loan income in blue).**



NB. The sample included loan and total income for 16 credit unions for 2011 and one, Millom and District Credit Union, for 2010. Given that the ratio of loan income to total income in total has overall changed by just less than 1%, the inclusion of Millom produces a chart that is, for overview purposes, the same as if all sample accounts were for 2011. The figures for GLEN and Money Tree are not easy to read on this chart as the figures are small in relation to the rest of the sample.



The expanding size and scope of individual credit unions should over time promote greater operating efficiency and in turn should help reduce reliance on grant funding in the longer term. Chart 3, on the next page, shows administration costs as a percentage of total assets in 2011 (blue bar) and also the percentage of total expenses to assets (red bar).

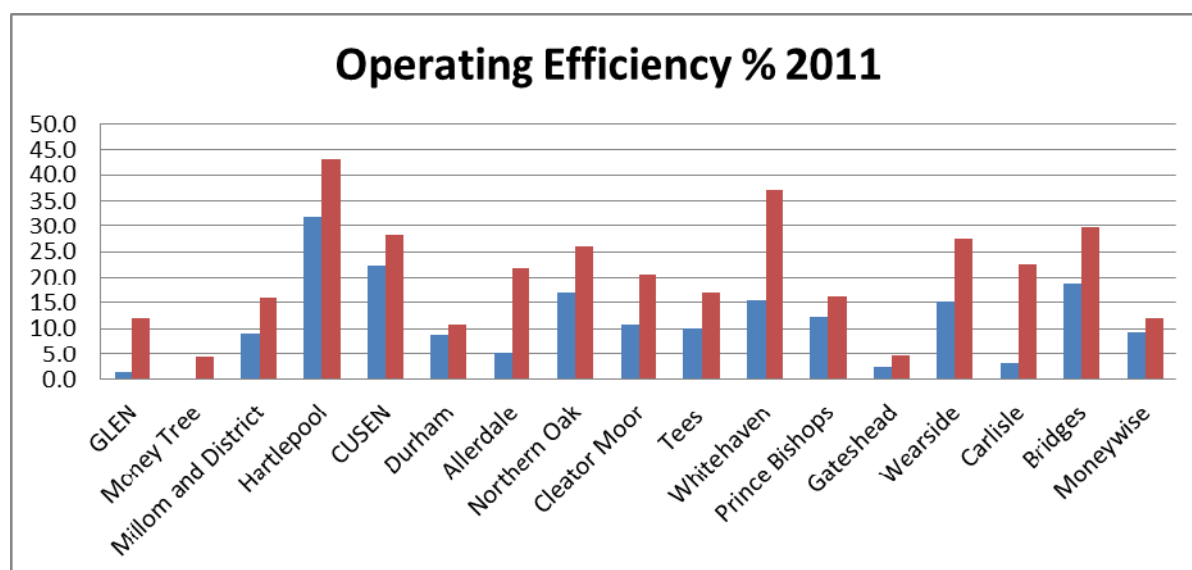
Administration costs include the costs of paid staff, operating costs in association with office or other building space such as rent and rates, lighting and heating, and the 'day-to-day' expenses of such items as printing and stationery. When paid staff are employed this is often the largest element. This is one measure of the efficiency of a credit union and it will vary over time, particularly if its expansion involves hiring staff, or hiring more staff, and this should be borne in mind when looking at one year's figures.

Administration costs, however, only look at part of the total expense of running a credit union, which also includes certain 'external' costs such as the fees associated with the annual audit, membership of a trade association, insurance payments and, importantly, writing off loans that are not repaid. Fundamentally, it is the total expense figure that needs to be covered if a credit union is to be sustainable in the longer term.

The averages of administration costs and total expenses across the sample were 14% and 21% respectively; these are figures that could be benchmarked against a ratio of 20-25% nationally for those that participated in the DWP Growth Fund and that were of a broadly similar size in 2008, i.e. that had assets of around £500K (see Hope 2010). Encouragingly, the total expense figures have dropped by around 3% from the previous year.

Again, some caution is needed with the figures for individual credit unions because of the effect of including Growth Fund monies in the accounts. However, the figures are some way larger than those for the larger credit unions in the UK, where total expenses can and do fall below 10%, and in the case of the largest credit unions fall below 5%. The World Council of Credit Unions recommends that total expenses should be equal to or not exceed 5% of total assets (Richardson 2000b). The data in this chart is one indicator of how far there is to go before the sector is truly sustainable in the sense of not being reliant on grant funding or other forms of external support.

**Chart 3. Operating efficiency – administration costs (blue bar) and total expenses (red bar) as a percentage of total assets.**



Credit unions receive approximately £7 interest on every £100 loan that is repaid over a 12-month period when the interest charge is 1% per calendar month, a little over £13 interest when the charge is at the current ceiling of 2% pcm. If the loan to asset ratio was to increase from the current figure of around 50% to 75% over the medium term, the total expenses to assets ratio would in all probability need to fall by more than a half to reach long-term sustainability.

High expense to asset ratios relate to major inefficiencies in systems and procedures and a lack of modern technological solutions to drive down costs. There was also evidence from interviews that effort is sometimes expended on unproductive activity – common examples were the development of savings clubs in primary schools and the maintenance of unproductive community service points. Both these actions depended on high resource input for little or no income return. The motivation for involvement in schools and the maintenance of community service points was often more social than economic.

However, in addition, with some exceptions, little work had been done to streamline internal procedures and generate efficiencies in organisational and delivery systems. There was generally little cost-benefit analysis undertaken in credit unions.

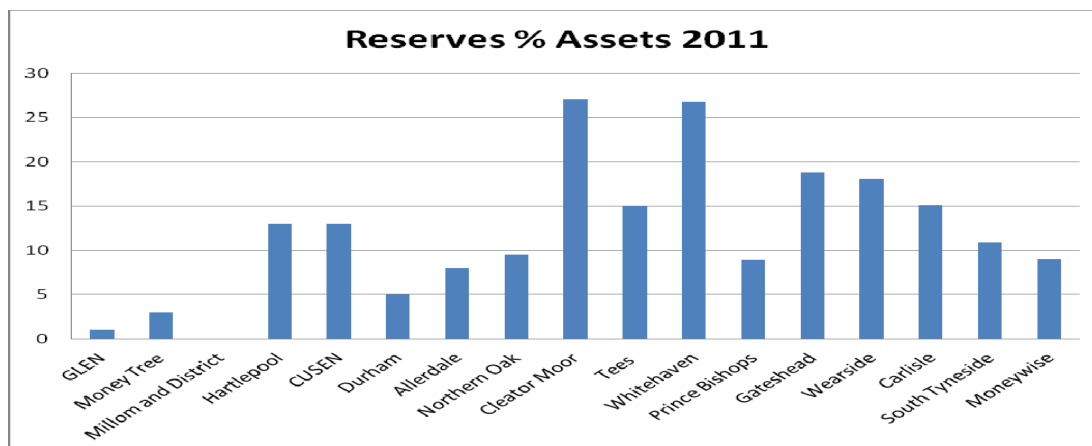
The dependence on external subsidies is now becoming critical for many credit unions. External funding is now mostly under threat and many of those interviewed were uncertain as to how their credit union would survive after the current financial year. Most of those interviewed realised that reliance on external grant funding was an unrealistic long-term strategy and were seeking other solutions. Merger with other credit unions to drive down costs was often a preferred option. Some of those interviewed, however, took a contrary position and felt that credit unions, as servers of the poor, ought to merit long-term and continuous subsidy.

### ***Credit union reserves***

Credit union reserves in 2011 averaged around 12% of their asset base and this is one measure where there does seem to be a link with size: smaller credit unions were typically

carrying less of a buffer than the larger ones. In such cases, there is always the risk that a poor year and an operating deficit would just be enough to reduce or wipe out their reserves altogether. Chart 4 also shows that the DWP monies have provided some credit unions with a substantial buffer of monies.

**Chart 4. Reserves as a percentage of assets – 2011**



**Major high-level threats**

Table 2 below, with data from the online survey, illustrates how a large majority of directors and paid staff regard financial instability as the greatest threat currently facing their credit union. 70% of directors and 61% of paid staff consider not making sufficient income to cover costs as one of the highest-level threats currently to their credit union.

Interestingly, however, only 31% of directors and 38% of paid staff regard not getting funds out on loan to be a current high-level threat. In reality, the making of effective loans and the generation of income are, for the most part, the two sides of the same coin.

The lower number of respondents indicating attracting savings as a major high-level threat is probably explained by the fact that most credit unions are attracting savings and are cash rich. Attracting savings without being able to expand the loan book can result in increased difficulties in paying a dividend on savings.

<b>Table 2. How survey respondents estimated the major high-level threats to their credit union – figures are percentages of the named group noting the factor as the highest level of threat</b>	Board Members n.65	Managers and staff n.34	Operational Volunteers n.39
Finding a sufficient number of skilled board members	40%	29%	34%
Finding enough volunteers to run the credit union	48%	41%	32%
Affording a paid manager and staff team	53%	59%	44%
Attracting savings into the credit union	29%	32%	17%
Getting funds out on loan	31%	38%	24%
Controlling bad debt	47%	56%	39%
Making sufficient income to cover costs	70%	61%	47%

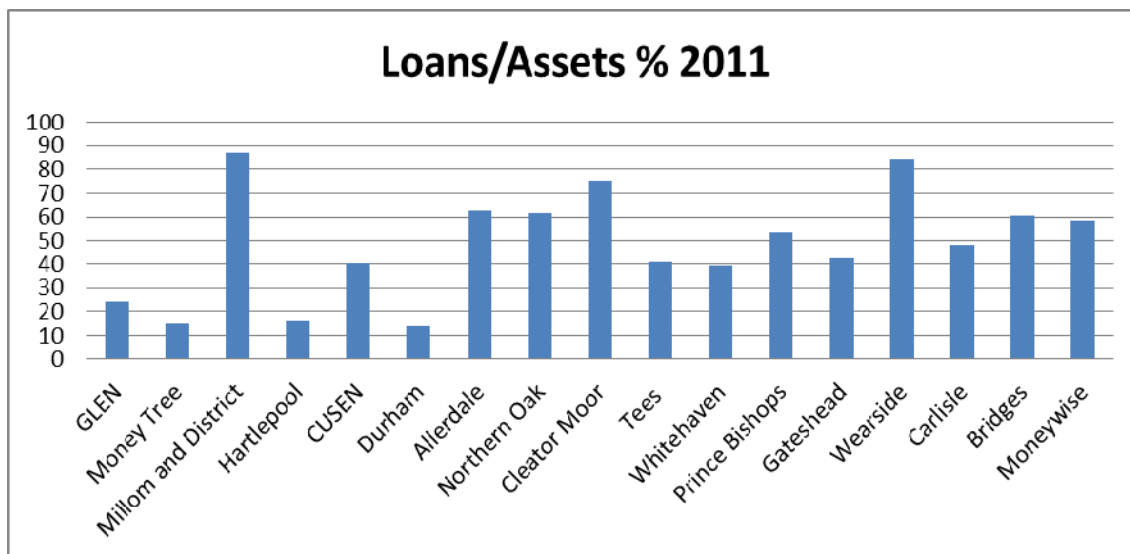
#### 4.4 The business of lending

The central factor in the sustainable development of any credit union is the productivity of the loan book. Hoel (2007), in his research into midsize and small thriving credit unions in the United States, identified that star credit unions outperformed others ('the laggards' [sic]) in nine key areas, the first of which was in the area of lending. Star credit unions are highly effective lenders, demonstrated by high loan to share or asset ratios. Credit unions that are able to lend successfully generate income, and, if they control expenses through rigorous cost-efficiency analysis, are able to achieve financial stability.

However, in many of the credit unions interviewed, lending was problematic. Loan to asset ratios were often low or not as high as they could be, resulting in high unproductive liquidity levels. A number of credit unions had loan to asset ratios of less than 50%, which, of course, has a major impact on income generation.

Chart 5 below offers an analysis of the loan to asset ratios of the 17 credit unions in the sample. It shows that overall, loans averaged 50% of the assets of the credit unions, a figure that is well below the 'goal' of 70-80% advanced as good practice by the World Council of Credit Unions (Richardson 2000a). As the chart shows, there is no simple relationship between the size of the credit union and the development of the loan book: middle-size credit unions had ratios of 60–70%, which were above those for the three largest credit unions. The chart shows a high ratio for Millom and District, although this relates to the 2010 year, the latest year for which data was available at the time of this study.

**Chart 5 Loans as a percentage of assets – 2011**



Overall, the loans made by the 17 credit unions in this study grew by just under 1% on average in cash terms over the period 2008–11, before taking account of the growth in consumer prices. Prices on average grew by over 10% during that time, a figure that may well significantly understate the increase in the cost of living for those on low incomes. The real value of the loans made by credit unions probably therefore dropped by something between 10% and 15% over the three-year period to 2011.

This drop masks the wide variation in the loan growth between the individual credit unions: loans made by the Cumbrian credit unions more than doubled to approaching £1.4 million in all, helped, of course, by the Growth Fund monies. There were other credit unions where the loan book dropped substantially, in some instances following on the experiences of particular problems with loan delinquencies. Some credit unions became more cautious and in 2011 were holding a greater amount of cash. In the case of the largest credit union, Moneywise, provisions for underperforming loans exceeded 10% of its asset base in 2010, and the total amount lent out declined from around £2.5 million in 2007 to around £1.5 million in 2011, a drop of some 40% in four years.

In some cases, undoubtedly, the current recession was impacting on loan demand. Moneywise, for example, reported that even though the number of loans was increasing, the loan book overall was not. Most of its payroll members were saving rather than borrowing, reflecting the current reluctance of many working people to take out further debt. Clearly lending, particularly to more moderate income members, is becoming more challenging.

### ***Impact of loan policies***

However, in most cases, low lending levels appeared more the result of restrictive loan policies and overly cautious approaches to lending. In many credit unions lending was tied to a preliminary period of savings and to a percentage of the amount saved. Even though the argument for this practice is that it supports a focus on saving, the result is a low take-up of loans. Borrowing in most credit unions is restricted to 1.5 to 3 times the amount saved. There are some notable exceptions, where this percentage rises to 10 times the amount saved.

In one example of a credit union's loan policy, there was insistence that regular members saved for 8 weeks before being eligible for a loan, and then the eligible loan amount was restricted to just twice the amount saved. In this case, it would take a new member 6 months of saving at £40 a month to borrow £480, with the £240 saved frozen until the loan was repaid. The same policy, however, did allow instant lending but just for people on low incomes.

### ***The success of the Government's Financial Inclusion Growth Fund***

In mostly Growth Fund credit unions, however, instant loan products have been introduced with significant success. Overall, in the North East and Cumbria, at least 14,229 loans have been made to people on low incomes to a total of £6.7 million. Growth Fund has expanded the loan book of participating credit unions significantly and has enabled these credit unions to reach out to many more people on low incomes. In the online survey, 86% of directors from Growth Fund credit unions said that the Growth Fund had supported the growth of the credit union. Not only had it injected capital into credit unions to on-lend, but had supported credit unions to strengthen systems and procedures.

Growth Fund loans tend to be low-value loans charged at 2% per month. However, early loan losses on the Growth Fund loan book, which were considerable, have tended to reinforce more cautious approaches to lending. Instant capacity-based lending has not therefore been generally adopted for core loans of larger amounts.

Some credit unions are endeavouring to offer more flexible products in response to the demands of the low and more moderate income market. In general, this has meant increasing the eligible loan amount as a percentage of savings or offering a range of interest

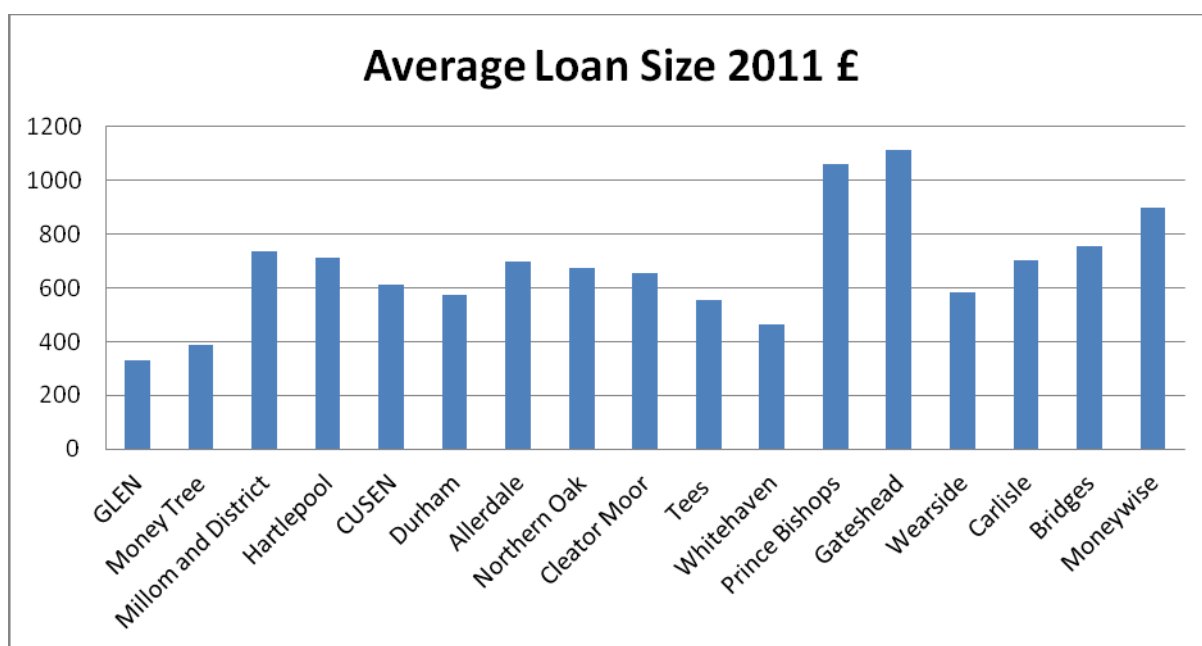
rates on various categories of loan, with lower interest rates available on higher-value loans. However, it would be true to say that the overall development of loans products has been slow and is an area for further development. Even with capital funds to on-lend, a credit union requires a sufficiently robust, well-performing business lending model to turn those funds into income.

**The relevance of average loan size**

Chart 6 below is indicative of the current business of lending in credit unions. The average loan size for all credit unions (at the end of the financial year) was just under £700; for only two credit unions the figure was over £1,000.

This is a strong indicator of the challenges facing the board of directors in reaching economic self-sustainability. There is a clear need to widen the membership base to include members who would be able to take out larger loans that would be more profitable to the credit union. However, this links both to having in place robust credit administration and credit control systems, and loans policies that are attractive in the more moderate-income marketplace.

**Chart 6. Average loan size**



**4.5 Attracting savings**

The underlying strength of credit unions in the North East and Cumbria, as shown by their share capital (accumulated savings), is shown in Chart 7 below. The combined savings figure in 2011 was just over £6 million or an average of around £370,000 per credit union. Only one credit union had a lower level of share capital in cash terms in 2011 than it did in 2008.

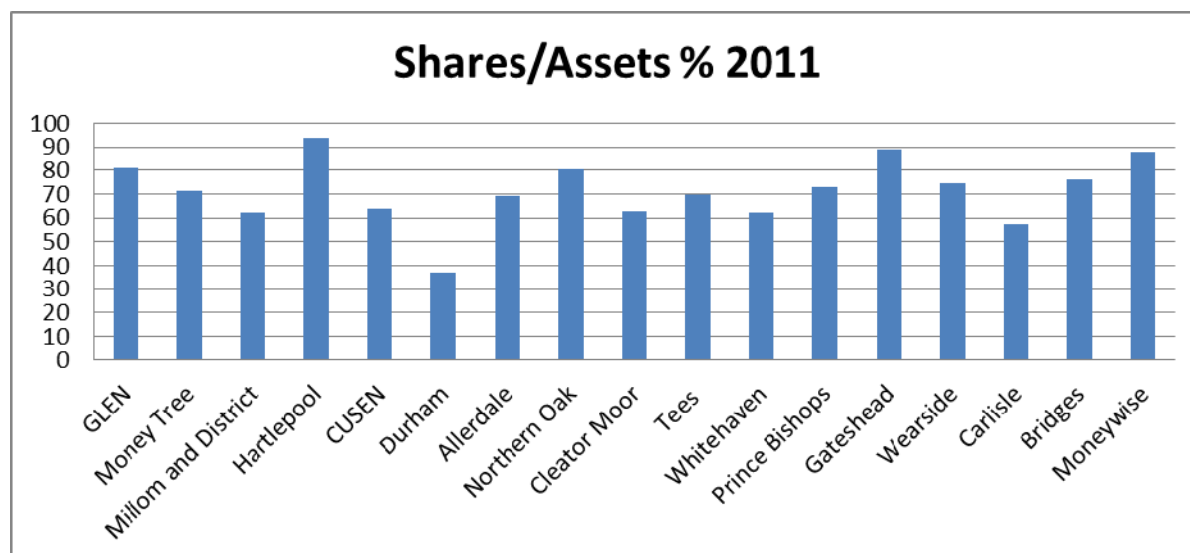
The three-year growth figure in the sample group of credit unions, 2008–2011, was around 23%<sup>11</sup>. This compares with the national growth of 45 % in savings held in all British credit

<sup>11</sup> This is estimated given the adjustments made to the 2011 figures – see Section 2 for explanation.

unions<sup>12</sup> over the same period. In the period 2010–2011, saving growth in the sample group was 9%, a little lower than the national average of 11%.

However, if the effect of inflation is allowed for, the real growth in savings is perhaps half that figure. Although, given the cost of living increases faced by members over the period, it also reflects the increased cost of saving to them.

**Chart 7 Shares as a percentage of assets – 2011**



For credit unions that are cash rich, maximisation of savings does not always appear to be the highest priority. In Table 2 above, the ability to attract savings into the credit union is not seen as a high-level threat by the majority of directors and managers. When lending is problematic, increasing the level of savings is equally problematic, as the payment of a dividend on those savings becomes more challenging. Economically, as far as income generation is concerned, savings are only of value to a credit union if they can be converted into loans to the membership or can be placed into interest-generating deposit accounts. The importance of the lending of savings is particularly high in the current financial climate when income from bank and other interest on funds on deposit is low.

Some credit unions have been able to generate significant levels of ethical savings and payroll deductions have facilitated the increase of savings balances in those credit unions with strong payroll deductions systems. However, in other credit unions savings growth has been more modest. Most managers interviewed noted that Growth Fund members have tended to save only the minimum amount when repaying a loan.

### ***Dividends on savings***

One issue that normally impacts on the mobilisation of savings is the payment of a dividend. Whether this impacts in the same way in the current financial climate, where interest paid on modest balances in bank savings accounts is very low, could be contested. However, in general terms, the payment of a dividend (or interest) remains an important issue for credit

<sup>12</sup> At year end 2008 total savings in British credit unions was £597m and at year end 2011 it was £867m. Figures from ABCUL but based on FSA statistics (unverified for 2010 and 2011).

unions. Failure to pay a dividend means, given the rates of inflation, members' funds deposited in a credit union are loss making to the member. Credit unions should aim to pay dividends that at least match the rate of inflation and are around one percentage point better than the banks for similar categories of savers.

In the North East and Cumbria, most credit unions have not been able to pay a dividend on savings in 2011. In 2011, six out of the 17 credit unions in the sample paid a dividend: Carlisle made a payment of 2.5%, and Whitehaven, Egremont and District 2%, and four others also paid dividends. Broadly, however, the sector has further to go before it can compete on rewarding savers with those in the financial mainstream.

#### **4.6 Building the membership**

Overall, membership growth in the region has been steady. In the sample group of 17 credit unions, membership growth was 14.5%, nearly double the national average of 7%. It is estimated that there are around 34,000 credit union members in the North East and Cumbria, if the three employee credit unions are taken into account. The average credit union membership of open, live or work common bond credit unions in 2011 was just over 1,000 members.

However, there is a wide difference in membership size. The 31 credit unions operating in 2011 ranged in size from the smallest with just 50 members to the then largest, Moneywise Credit Union, with 4,300 members. Of the 31 credit unions, 13 credit unions had over 1,000 members, with 4 having over 2,000 members, and 18 of the credit unions had fewer than 1,000 members. However, in 2012, with the amalgamation of Bridges Community Bank and Wearside Credit Union, the largest credit union is now Bridges with a combined membership of over 6,000. Moneywise, however, remains the largest credit union in relation to assets (see Appendix II).

In some regions, membership is particularly modest. The average membership of the 5 credit unions, for example, in Middlesbrough (not including the failed Pallister) currently is 473. Among the several credit unions with fewer than 100 members are Shildon Credit Union with 77 members and Shiney Row Credit Union with around 50 members.

A number of Growth Fund credit unions have been able to significantly increase membership over the last year. Cleator Moor has nearly doubled the membership from 2010 to 2011.

##### ***Difficulties in growing the membership***

However, in general and from interviews, many credit unions are finding it difficult to grow the membership. Some of these credit unions, which include some of the largest credit unions, said that they were having immense difficulty getting the message out about the benefits of credit union membership and appealing particularly to more moderate-income consumers. Some credit unions are actually recording falls in membership as they remove dormant accounts from their records.

In one or two credit unions, managers reported difficulties in reaching out to and attracting financially excluded groups into membership. These credit unions had traditionally served a moderate and low-income stable membership accessed often through local churches or community organisations. Moving further into the low-income market was experienced as problematic.



## 4.7 Product and service delivery

In general, the main products and services offered through credit unions in the North East and Cumbria are the traditional loans, linked to savings balances, and simple savings accounts. Basic life insurance cover for savings and/or loans is also available in most credit unions. The Growth Fund has resulted in a focus on the delivery of instant loans but these have normally remained limited to low-value loans at the higher 2% interest rate. In the study, there were only a few examples found of a higher-value instant loan, based on an analysis of a capacity to repay rather than on a prior savings record, being available through a credit union.

There have been some recent moves to introduce new products and services and to update service delivery channels. These include<sup>13</sup>:

- Website developments with the support of Northern Money and the introduction of online membership and loan applications. There is at least one example of members being able to check balances online
- 11 of the 27 credit unions associated with Northern Money offer payment cards for deposits into accounts (PayPoint or Allpay)
- 8 of the 27 credit unions can now also take payments over the phone
- 13 credit unions can receive welfare benefits paid directly into members' accounts
- 8 credit unions can do BACS payments into members' bank accounts
- A small number of credit unions offer online ID verification
- 14 credit unions offer payroll deduction services with the local authority and/or other employers
- 14 credit unions offer Christmas saving clubs
- 14 credit unions involved with the Co-operative Electrical purchase scheme
- Moneywise has developed a loans scheme for the purchase of travel passes and has also developed a payday loan product
- Northern Oak Credit Union has a mobile collection service

Even with the above, it would still be true to say that the overall development of financial products has been slow. Sometimes, even where developments have been initiated, take-up has not been as high as was expected. Several of the credit unions, for example, that had introduced payroll facilities with employers had found that take-up was poor.

Even though 11 credit unions use electronic cards for payments into accounts, there was little evidence of electronic methods of payment disbursements, apart from BACS in 8 cases. There was little evidence of the use of pre-paid debit cards, even though several credit unions expressed a keen interest in their introduction.

There is also no credit union current account available in the North East and Cumbria. At one time, both Bridges Community Bank and Hartlepool Credit Union offered the current

---

<sup>13</sup> Most of these figures have been collected by Northern Money.

account, as made available through ABCUL, but this was discontinued in both cases on the grounds of cost and low take-up of the product.

There is no collaboration on product and service development within the region with the result that credit unions offer a range of products and services often dissimilar from one another. This has an impact on marketing credit unions collectively throughout the region.

#### **4.8 Accepting the need for change**

In the online survey, 69% of directors and 58% of paid staff felt that it was now important for credit unions to rethink their role and direction. Of course, thoughts and views about the content of reformulated role and sense of direction in the North East and Cumbria differ widely. There does not seem to be any common consensus of a way forward.

However, that said, from interviews, there was a recognition that the current model of developing credit unions, insofar as this continually depends on external financial support, is unsustainable. As one manager said, the dependence on external funds is “a huge issue to tackle at the moment”. The organisational culture of grant dependency is perhaps the most important area for major area within the sector.

But this is not uncontested. There were participants interviewed who felt strongly that there were good grounds to argue for ongoing dependence on public or other funds. The argument was that, as community-based volunteer-run organisations, committed to serve some of the least well-off people in society, credit unions will never be able to achieve financial independence. They should continue to be subsidised by government, local authorities, charitable trusts, banks and others as key agents of support for the most vulnerable within society.

This debate between financial self-sufficiency and ongoing subsidy as a vehicle to support the poor highlights the nub of the issue facing all credit unions in the region. They can continue to lobby for external grant funding to maintain the business or to commit to a process of change and modernisation and the development of a robust business model that offers the real possibility of self-sufficiency in the short to medium term.

However, it must be stressed, that a commitment to change and modernisation does not mean that there is no further need for capital or revenue support. It only means that there should be no further need for support that maintains credit unions in a state of funding dependency. Credit unions still need capital and revenue support, but to free themselves of dependency and to assist or kick-start the development of a viable business. All grant support should be closely linked to assisting credit unions generate income through business activity and to drive down costs.

Credit unions in the region tend to have developed individual and autonomous approaches to development which, whilst perhaps supporting local community agendas, has not resulted in a cohesive regional credit union system.

## 5. Change and transformation

The aim of this study was to explore the strategic options for credit unions in the North East and Cumbria and to identify practical actions and interventions that could support their sustainable growth and expansion into the future. It is clear from research interviews and statistical analysis that credit unions in the region face significant challenges in developing as autonomous financial co-operative institutions. These challenges are multifaceted and multilayered and, to achieve long-lasting financial stability, credit unions will undoubtedly have to address issues and make changes in many areas simultaneously.

The study has identified eight key factors as fundamental to the success of the credit union system in the North East and Cumbria. These eight factors do not encompass all the elements and aspects of effective credit union development; there are clearly others. However, these are the eight factors that have arisen directly out of research discussions and which appear particularly significant for the credit unions in the region.

### 5.1 Vision and leadership

It could be argued that the prime factor in developing a sound and stable financial co-operative is the vision, the leadership and the drive of the people on the board of directors and in management positions. As one manager in interview noted, "Growth – you've got to do it yourself". The credit unions that appear to be developing more successfully than others, often have people at the helm with an enthusiasm for the business and a belief in the value that it can bring to communities, families and individuals. The hard truth is that success in credit union development depends on the quality of the leadership of the people involved in its governance and management. Turn to any credit union that appears to be succeeding and it is often the case that some person or persons on the board or in management are recognisable as the key drivers of the organisation.

#### ***A step change in leadership, governance and management***

In order to drive the regional credit union movement forward it is clear, therefore, that a step change is needed in leadership, governance and management. At both board and management level, this will entail higher-level competencies in strategic planning, organisational management and systems, financial management and analysis, credit administration and debt recovery, and human resources. It will mean recruiting skilled and passionate people who can reinvigorate the credit union movement and who can recapture the same innovative spirit that motivated its early founders.

However, the vision of the modern leader will need to be wider than that of those who created the first credit unions on housing estates in Newcastle. All those interviewed recognised that too narrow a focus on the low-income market is an unsustainable growth strategy. They were keen to refocus the business to become a more inclusive financial provider, with those on low incomes and the financially excluded served alongside a wider range of members.

In relation to governance, some credit unions have strengthened the board through the recruitment of skilled individuals, the implementation of new policies and procedures and the adoption of a code of governance for directors. However, in general, there is a need in many credit unions to strengthen the understanding and practice of good governance as distinct from day-to-day management. Credit union boards need to demonstrate clear and effective oversight and control of the credit union and a commitment to systematic planning and

evaluation processes. Good governance inspires confidence in a credit union, a key factor in the recruitment of new members and the maximisation of savings deposits.

To this end, there appears in many places a need for effective board training, planning and development, which many participants in interview recognised did not always receive the priority they deserved, given competing pressures. There is a scope here for expert technical and management assistance from local authorities, social housing providers, banks, charitable trusts and other organisations with an interest in the credit union movement.

### ***Success planning and risk management***

Two areas of governance that seemed particularly weak were succession planning and risk management. The first, of course, is but one element of the second, and both are important areas for board training. The development of a formal approach to risk management and the creation of risk registers is an immediate high priority for many credit unions.

### ***The dynamics of the relationship between the boards and management***

Understanding good governance necessarily involves understanding the dynamics of the relationship between the boards and management. Cornforth (2003) indicates at least six models of board and manager relations, each of which impacts differently on how boards and management judge the effectiveness of their actions.

One model is the compliance model, which can be characterised as boards aiming to control managers. Within this model boards perceive their main role as ensuring management complies with board decisions and policy, as well as with legislation and regulation. The board monitors the activity of management, based on an understanding of governance as completely separate from management.

Another model is the delegated model in which all real control in the credit union is delegated to professional managers. Board members are not really involved in policy setting nor in strategy but rather become symbolic figureheads who 'rubber-stamp' management decisions. In this model, power still resides in the board only insofar as it is likely to have to take action in times of crises. This is the kind of board that Warren Buffet once called "tail-wagging puppy dogs"<sup>14</sup>.

Both of these models were observable within the group of participating credit unions, and both are destructive of good governance and management. In the first, the CEO or manager is undermined and demoralised, and in the second, the board relinquishes its fundamental responsibility to oversee and direct the credit union.

In his recent credit union publication, *Boards and CEOs: Who's Really in Charge?*, Bob Hoel (2011) argues that the best CEO-board relations are symbiotic, with an informed and conscientious group of directors monitoring a capable and transparent CEO. This relates well to another of Cornforth's (2003) models, the partnership model, in which the main function of the board is to improve organisational performance. Here the board assumes that the CEO or manager is equally committed to the mission and the values of the credit union and sees its role as adding value to strategic and key decision-making in partnership with management. In this model, of course, board members need to be skilled and sufficiently competent to engage meaningfully with management.

---

<sup>14</sup> Quoted in Hoel (2011).

In this model, which in a co-operative credit union is the most appropriate, it is important that boards recognise the competences of effective credit union managers. Neill (2012), in his work on the attributes and skills of highly effective credit union managers, highlights their top three interests as enterprise, finance and administration, and the service of people. Their traits, he identifies, as energy, decisiveness, communication and the ability to solve problems.

### ***Paid CEOs and managers***

The issue for all boards, and for many in the North East and Cumbria, is to ensure that paid CEOs and managers put all their energy, drive, decisiveness and entrepreneurial spirit into building and expanding the credit union. Boards need to recognise that there are competing forces pushing a CEO or manager expanding the business. Unlike in commercial banks, where CEOs and managers are rewarded financially with bonuses, in co-operatives, a manager's reward for expanding the business significantly could just be seen in terms of more work and more responsibility. In a co-operative, there is a recognised dynamic that can push managers to complacency. This is doubly true if in reality the manager of the credit union is an employee of an outside agency. Here the drive is to maintain the credit union according to the requirements of that agency.

Hoel (2011) argues strongly that, if boards are to ensure managers put all their energy into credit union expansion, they need to hire a hardworking, experienced CEO who shares the credit union's values and then rigorously monitor that person's performance but without any hint of micro-management. This he regards as the board's most important role. He adds that in return boards should ensure that well-performing CEOs are appropriately rewarded, at or above market rates, but he argues that boards should be very sceptical about the claims of the organisational performance-boosting powers of CEO or manager incentive systems. It is co-operative values that should drive a credit union, not pay enhancement.

If credit union expansion depends on good governance and effective management, the problem that immediately surfaces in the North East and Cumbria is the capacity of credit unions to hire effective, entrepreneurial managers. In a context of credit unions struggling to fund and maintain their current small teams, how are they going to hire in the level of management leadership and expertise required to move credit unions forward. The answer may be that many cannot without a radical restructuring of the credit union system.

## **5.2 Continuing rationalisation of the sector**

Credit unions in the North East and Cumbria range from small traditional, entirely volunteer-run organisations serving fewer than a hundred members to those that are endeavouring to become professionally managed, modern financial co-operative institutions, visible in the marketplace, with a capacity to offer a range of financial services to thousands of economically diverse members. Most credit unions lie in-between these two poles.

Some of the very small community credit unions have been in existence for over 20 years, often with some of the same people in charge. They achieve what they can at a local level and add value to the lives of their members, volunteers and communities. These committed community initiatives will continue as long as they have volunteers to run them and as long as they can cover their basic costs and comply with regulatory requirements.

However, in interview, at least one director from one of these small credit unions related how the volunteers were ageing, and how they were finding it increasing difficult to manage the

administrative responsibilities, particularly in the context of an increasingly rigorous regulatory regime. Like many of these small credit unions in the past, it may be in the interests of their current directors and members to seek a transfer of engagements into another nearby credit union, rather than suffer the danger of collapse or closure.

### ***Credit unions with ambition, commitment and drive***

If credit union growth and expansion is to happen significantly in the North East and Cumbria, however, it will undoubtedly have to come from credit unions that have the ambition, commitment and drive to develop as professionally managed, autonomous financial institutions with the capacity to reach out to and serve multiple target markets. It will not come from weak credit unions, continually anxious about where the next six months' funding is going to come from, or whether or not the external agency they are dependent upon will be in existence after yet another funding review. Credit unions will only be able to deliver if they achieve financial stability and are confident of their future.

Some credit unions in this study did express confidence that they could achieve financial stability and develop as an independent financial institution on their own. They felt they had robust plans to increase income and drive down costs, and free themselves of dependence on external subsidy. Carlisle Credit Union, for example, was confident that it was beginning to build the business and would achieve autonomous, sustainable development in the short to medium term, although currently still dependent on external support. Moneywise, in Newcastle, is one credit union that does seem to have achieved a level of financial stability, due mostly to its payroll membership in the local authority and to a cautious approach to the business. Stability here has perhaps, however, been gained in this case in exchange for modest growth and development.

### ***Considering transfers of engagements***

Many credit unions, however, that had an ambition to grow and to develop the business had come to the conclusion that they could not achieve significant growth as an independent, stand-alone entity. Resources and investment were regarded as insufficient to support autonomous development. These credit unions are considering mergers or transfers of engagements.

During the course of the study, Wearside First Credit Union transferred into Bridges Community Bank and the Cumbrian credit unions, with the exception of Carlisle, were actively pursuing merger talks following the publication of a feasibility study undertaken by ABCUL in 2011. North Tyneside Credit Unions were in discussion with CUSEN Credit Union about a merger; and, in recent months, Gateshead First Credit Union, Durham Credit Union and Cestria Credit Union have announced that they too are considering the option of coming together. A merger of credit unions in Redcar and Cleveland was also voiced during research interviews.

Clearly, the continuing rationalisation of the sector offers the possibility to certain credit unions to gain from economies of scale, to strengthen and to restructure operations and to open up new target markets. It can offer merging credit unions the opportunity to reinvigorate their organisation, to draw in new skilled people onto the board, to hire in competent management and to rebrand and relaunch the credit union as a modernised going concern.

But there are inherent dangers too. Some credit union participants were not convinced by the merger argument, and felt that merging with weaker credit unions could undermine rather than strengthen their organisation. Given the expense involved in merger, they argued too, it could cost more than it achieves. Some participants felt it could also undermine a sense of local identity, if the new credit union covered a large geographical area. It was this sense of local achievement, it was argued, that often encouraged key volunteer directors to remain committed to a credit union. It also demanded a significant amount of trust and goodwill between the merging organisations, which may not always be the case between credit unions that had adopted very different approaches to the business and affiliated to different trade associations.

### ***Merger is not a panacea but may be a logical and strategic step forward***

Certainly, merger itself is not a panacea or even a solution to credit union development. Most managers, in interview, realised that a transfer of engagement was only the first step in a credit union strengthening process. The more major issue was the challenge of developing a credit union, merged or not, into an efficient and effective, modernised and professional financial co-operative. Merger is not the solution, only a step to the solution.

But it may be the most logical and strategic step forward for a number of credit unions on the path to credit union expansion and growth. In the Tees Valley, for example, where there are a number of small credit unions with limited capacity, it may be in their best interest to join together in a new venture built on a sound business footing.

Of course, any effective merger depends on rigorous due diligence, adequate resources, a shared vision and a commitment to a process of change. No merger will achieve growth, without the good governance and effective management that is requisite in all credit union development. Credit unions need to be particularly careful where funding opportunities to support merger initiatives. Funding and investment is required, that is evidently true, but not at the expense of undermining the enterprise required to make the business profitable from its own activity.

## **5.3 Transforming management and operational systems**

The modernisation and transformation of credit unions demands a radical financial, organisational and operational restructuring in order that they can develop the capacity and the products to serve their members effectively. This is the major and the most important challenge for credit unions in the North East and Cumbria.

Credit union success, according to the World Council of Credit Unions (Richardson 2000) (WOCCU), depends on seven key elements. The first is to serve the financial needs of an economically diverse population, rather than to focus entirely on the financially excluded and economically disadvantaged. This first point is fundamental to long-term sustainable development.

The second is the maximisation of savings. In the context of cash-rich credit unions, this may not appear as an immediate priority. However, long term it is the only sure way of generating funds for on-lending and for building the financial stability of the membership. The third element is product diversification, or offering a range of financial products in response to the needs and wants of people in different segments of the market.

The fourth element is operating efficiency and the fifth is financial discipline. Without these two elements, costs cannot be driven down and income maximised.

The sixth element is self-governance or the autonomous control of the credit union by the board of directors. The seventh is assimilation by which is meant the capacity of the credit union to bring the financially excluded “into the mainstream economy by providing them with access to comparable financial products and services” to those found in conventional financial institutions (Richardson 2000).

Without all of the above seven elements in place, credit union long-term sustainable development is compromised and ultimately unachievable. But these elements can only be put in place if credit unions have high-level skills and competencies in strategic planning, the development of management structures and systems, financial and asset management, credit administration and bad debt recovery, and human resource management.

### ***A lack of robust management and operational systems***

In general, in the North East and Cumbria, most credit unions either lacked robust management and operational systems, or were endeavouring to strengthen such systems with available resources. In interviews, participants recognised the need to maximise income and to reduce costs through driving efficiencies in organisational systems and procedures. They knew what they had to do, the how to do it was more problematic.

The difficulty was that many credit unions do not yet have the skills, experience or resources to make rapid progress in restructuring and refocusing the business. Even in those credit unions that had attended seriously to organisational development, they still noted that they required higher-level technical systems analysis and assistance in order to make long-lasting progress on process and systems transformation. In those credit unions, that were overstretched and reliant on one or two individuals or on outside agencies, it was difficult to provide the time, the resources or the staffing to make change quickly. Re-engineering the business can, in some cases, feel like a step too far.

### ***Credit unions in a good place to move forward***

However, there are credit unions now and there will be more in near future, once new mergers have taken place, that will be in a good place to move forward on organisational restructuring and the development of processes and systems. With technical assistance, and expert guidance, these credit unions could cut costs and drive forward efficiencies. It is this kind of development that needs particular support. Moneywise Credit Union, Bridges Community and Carlisle Credit Union, among others, could all serve as illustrative examples of credit unions endeavouring to improve efficiency and service delivery.

Three areas surfaced as of particular high importance in the development of new processes and systems. These were credit assessment, credit control and internal audit. There is certainly a need to introduce more modernised systems of loan granting and decision-making if the low to moderate income market is to be accessed successfully. The same is true of credit control as bad debt must be driven further down to assist credit unions achieve self-sufficiency. Internal audit systems throughout the entire credit union system were variable and often rudimentary. As credit unions grow, more robust internal audit systems will need to put in place. This may be an area for greater collaboration between credit unions (see Section 5.7 below)



## ***The DWP Credit Union Expansion Project***

The DWP Credit Union Expansion Project (DWP 2011) offers an important opportunity to credit unions to benefit from a major programme of systematic change and modernisation in organisational culture, processes and systems. However, entry into this strengthening programme will be subject to strict criteria *“to ensure that only suitable credit unions, which have already demonstrated sufficient progress, are selected to participate in a programme of behavioural, process and systems change”* (DWP 2011).

With immediate technical assistance and support, it may be possible for one or two credit unions from the North East and Cumbria to demonstrate the capacity to participate in the pathfinder group of credit unions in the programme. But this would be demanding. In this report, it has been estimated that expenses to assets ratio would, in all probability, need to fall by more than a half to reach long-term sustainability (section 4.3 above). The DWP argues that credit unions need to *“Start taking immediate steps towards sustainability by working towards achieving cost reductions of approx 40%”*. This is regarded as achievable but only through a rigorous restricting of processes and systems. It may be more realistic for those credit unions with ambition to grow in this region to begin the process of change to aim to participate in the second stage of the programme.

### **5.4 Product and service development**

The third WOCCU element of credit union success is product diversification in response to the different needs and demands of varying segments of the market. The DWP feasibility study (DWP 2011) has confirmed that a market does exist amongst people in tier II and tier III income brackets<sup>15</sup> for locally provided banking, savings deposit and loan services from trusted providers such as credit unions. Further, from the experience of some of the more developed credit unions in the country, it is also clear that, given the right products and services, and delivery channels, there is also a market to be developed among more people on more moderate incomes. Clearly, it is those credit unions that are able to engage with a more inclusive membership, from different market segments, that will have a better chance of financial stability.

#### ***The greatest need is to modernise the approach to lending***

To truly excel as a co-operative financial provider, credit unions need to begin to offer a much broader and modernised range of savings and lending products. This is the only way to attract larger numbers of people into credit union membership.

The greatest need is to modernise the approach to lending. This is critical to success. Most credit unions need to revisit loans policies and credit assessment processes to ensure that they are efficient and responsive to the needs of the contemporary consumer. The “cookie cutter” approach to lending (Richardson 2000), where all members can only receive a loan

---

<sup>15</sup> *“Tier II consumers – those with incomes in the 11% to 40% bracket, generally with household income below £30K, a record of failed banking transactions, and likely to be in employment but use home credit and live in deprived areas or in social housing. This tier, therefore, excludes people on middle or average earnings, but includes those on a mix of benefit and wages, as well as those on lower wages. Tier III consumers – those with incomes in the lowest 10% bracket, the majority of which are benefit claimants”* (DWP 2011).

based on a percentage of their savings and at one single rate of interest, is not attractive in the modern marketplace. Credit unions need to offer members a range of loan products at different interest rates dependent on the size of the loan, the period of the loan and the level of risk. They need to research and seek out credit assessment tools that speed up lending decisions but against criteria designed specifically to minimise loss. The move to the use of more electronic loan assessment tools as an aid to lending is of high priority.

However, in Table 3, it was significant that 54% of board members and managers, in the online survey, from credit unions that only offered loans linked to saving balances, said that they had no interest in offering loans independent of a percentage of saving balances, as against 46% who said that they would like to or plan to do in the future. There was more interest, however, in offering a range of loan products at varying interest rates, only 32% said that they had no interest in doing so, as against 68% who said that they would like to or plan to do in the future. Clearly, there is a significant interest in a change of approach to lending in credit unions, but equally there are still many people who wish to retain traditional credit union loan practices.

On the issue of increasing income through the possibility of increasing the loan interest rate on some low-value loans, given the DWP suggestion to raise the cap to 3% per month, the online survey revealed a variance of views in the regional movement. 50% of directors were in favour of increasing the cap and 34% were not. 44% of paid staff were in favour of raising the cap and 35% were not. When operational volunteers responded to the same question, only 14% were in favour of raising the cap and 54% against.

Credit unions also need to consider offering a range of savings accounts in order to compete as the primary place for members' savings. Positively, there was an ambition to pay a dividend on savings. Only 14% of participants from credit unions that did not pay a dividend in the previous year said that they had no interest in a dividend. Paying a dividend on savings is seen by board members and managers as critical to success, and something that credit unions need to work towards as a priority.

### ***The importance of interest rates on savings***

Following legislative and regulatory changes, credit unions will be able to provide a range of savings products with varying interest rates, rather than a dividend, but they will need to demonstrate to auditors and the FSA that they have capacity and financial strength to do so. On this, 57% of respondents said they plan or would like to offer interest rates on deposit accounts (Table 3), yet 43% said that they would not. Of course, this is a capacity issue for credit unions, but it is also an aspirational issue. If credit unions do not aspire to pay interest on savings, it is very unlikely that they will mobilise and retain the primary savings of their members. It is very common, even among saving directors of credit unions, that they only save a minimum in the credit union, but keep their real savings' balances elsewhere.

### ***Modern transactional services***

Of course, the interest rate is not the only reason people do not save in credit unions. They do not save often because access to their money is cumbersome and difficult. In this regard, it is positive that 71% of board members and managers aspired to having a credit union current account and 86% to a pre-paid debit card. The need to introduce modernised transactional services will, in fact, be central to effective credit union development. Only 29% had no interest in offering a current account and only 12% in offering a pre-paid debit card.

Effective support and assistance for low-income credit union members often can include some form of budgeting and bill payment mechanism (jam-jar accounts) to ensure that funds are put to one side to pay bills. Positively, 89% of board members and managers plan or aspire to offering jam-jar accounts to their members. This is an important development given the forthcoming introduction of Universal Credit. It is a product that would be of immense interest to local authorities and social housing providers. However, only 22% of respondents said that they actually plan to deliver this product. This is clearly an area for development and even perhaps for external financial support to get off the ground.

Overall, it was recognised by most people that the products and services offered by credit unions in the future need to be more comprehensive and flexible. Indeed, a number of credit unions are already introducing more flexible and responsive loans and savings products. Both Bridges Community Bank and Moneywise Credit unions, for example, have introduced variable interest rates on different categories of loan. The Moneywise payday loan product is pioneering and certainly a response to the modern contemporary marketplace. Whether or not, however, it is a viable loan product at 2% pcm waits to be seen.

### ***Payroll deduction***

One area of important development is the introduction and further promotion of payroll deduction services with large employers throughout the region. When established, payroll deduction is often the most effective way of reaching out and serving lower to moderate income working people. In some authorities, payroll deduction was refused to credit unions on the basis that there were multiple credit unions operating in their catchment area. This ought to be contested, as there is no reason that an employer cannot make payments to any credit union of an employee's choice. The furtherance of payroll deduction schemes should be adopted as a regional campaign. But again, credit unions have to be able to deliver on quality and responsiveness, if such a campaign is to be taken seriously.

### ***Popular products for introduction in the shorter term***

In reference to Table 3 below, the most popular products for introduction in the shorter term by credit unions not already offering these products are:

- Pre-payment debit cards
- Credit Union Current Account
- Benefit direct accounts (direct benefit payments into a credit union account)
- A savings account with an annual dividend
- Budgeting accounts (jam-jar accounts)
- Christmas saving scheme (with locked-in savings)
- Money or debt advice
- Internet access to account management for members
- SMS alerts to members – reminders to repay loans etc.

The products and services that merited no interest from at least 30% of board members and managers replying to the survey were:

- Savings deposits with interest payable rather than a dividend
- Differentiated savings accounts with a range of interest rates
- Loans not linked to savings balances
- A range of loan products at varying interest rates
- Individual Savings Accounts (ISAs)

- International Money Transfer
- Mortgages
- Payment Protection Plan (insurance)
- Home contents insurance
- Funeral plans
- White goods purchase schemes (like Co-op Electrical).

In regard to the no-interest list, some of these items are understandable and may have been seen just as unfeasible at the present time, but they may also reflect that there is a certain lack of ambition to become more professionalised financial institutions among certain sections of the credit union movement in the region. The development of some of these products and services may appear to some to be too far away from the traditional credit union product offering.

**Table 3. Ambition to develop products and services** – responses to the possibility of offering new products by respondents from board members and managers from credit unions that do not currently offer these products and services. Those elements with over 70% of respondents replying positively are highlighted. Also highlighted are those with over 30% respondents having no interest in product.

	<b>Plan to offer in the future</b>	<b>Would like to see offered in the future</b>	<b>No interest in offering</b>
Pre-payment debit cards	24	22	6
	46%	42%	12%
Credit Union Current Account	6	36	17
	10%	61%	29%
Benefit direct accounts (direct benefit payments into a credit union account)	5	24	6
	14%	69%	17%
A savings account with an annual dividend	4	15	3
	18%	68%	14%
Savings deposits with interest payable rather than a dividend	6	34	20
	10%	57%	33%
Differentiated savings accounts with a range of interest rates	4	27	23
	7%	50%	43%
Loans not linked to savings balances	4	15	22
	10%	36%	54%
A range of loan products at varying interest rates	6	26	15
	13%	55%	32%
Budgeting accounts	10	31	7
	21%	65%	14%
Individual Savings Accounts (ISAs)	1	18	27
	2%	39%	59%
Christmas saving scheme (with locked-in savings)	8	25	6
	21%	64%	15%
International Money Transfer	0	8	45
	0%	15%	85%
Mortgages	0	6	50
	0%	11%	89%
Payment Protection Plan (insurance)	0	10	44
	0%	19%	81%
Home contents insurance	6	31	24
	10%	51%	39%
Car insurance	2	16	38
	4%	29%	68%
Money or debt advice	4	26	8
	11%	68%	21%
Funeral plans	5	20	13
	13%	53%	34%
White goods (like Co-op Electrical)	7	15	11
	21%	45%	33%
Internet access to account management for members	11	34	9
	20%	63%	17%
SMS alerts to members – reminders to repay loans etc.	16	37	0
	30%	70%	0%

**Table 4. How important to your credit union are the opportunities offered to credit unions through the new legislation?** Board member, manager and staff responses (*NB. Top number is the count of respondents and bottom number is the percentage of the total respondents selecting the option.*)

	Very important	Quite important	Neither important or unimportant	Quite unimportant	Not at all important	Don't know
A more flexible common bond – being able to serve more than one group of people	32	47	9	2	3	4
	33%	48%	9%	2%	3%	4%
Corporate membership of the credit union (community groups, businesses and societies can join)	32	42	17	2	1	4
	33%	43%	17%	2%	1%	4%
Being able to give interest on savings rather than just a dividend	15	33	23	6	10	9
	16%	34%	24%	6%	10%	9%

## 5.5 Harnessing information technology

The majority of credit unions in the North East and Cumbria operate computerised accounting systems. There are just one or two small credit unions that still complete accounts manually. Computing systems used are from at least three separate accounting software companies, and for the moment, all interviewed felt that their system was adequate for their current purposes. Recent increased charges levied by one of the companies, however, has presented financial difficulties for some credit unions, with some not being able to afford upgrades to the system. This reflects tight financial circumstances.

The Northern Money project has enabled many credit unions to develop their own website, which contains basic credit union information and sometimes documentation for member download. At least one credit union offers members access to balance information through the website. Northern Money is regarded as having made a real contribution to harmonising website design and enabling general information about credit unions to be more widely available. 51% of board and paid staff members considered that Northern Money had assisted development of credit unions in the region.

Otherwise, the level of use of information technology within credit unions is limited and underdeveloped. Yet, in order to offer members a more efficient service and to ensure the long-term effectiveness of the business, credit unions will need at some point to invest in information technology in such areas as payment and disbursement systems, in online account management, in loan applications and credit assessment, in the control of bad debt, in asset management, compliance and internal audit, as well as in administrative systems.

Most individual credit unions, however, have limited resources to make significant advances in upgrading information technology. The two credit unions, for example, that pioneered the introduction of a credit union current account had to terminate the product on the grounds of

cost and low take-up. Yet lack of resources does not take away from the essential point: providing a modern range of savings and lending products does require a substantial upgrade to credit union information technology systems.

However, many short-term wins are possible within the current credit union system. With some investments, more credit unions could offer members payment and pre-paid debit cards, as well as introducing the interactive voice response (IVR) telephone payment system now being used in a number of credit unions. The development of greater online access for members is also feasible, and more credit unions could replicate the online access to member balances as currently offered in Moneywise Credit Union.

More major advances in information technology will be possible for those credit unions that are able to access the DWP Credit Union Expansion Project. Central to this project is the development of advanced electronic systems both to promote efficiency and to offer a more modernised service to members. The development of a centralised back office system will enable credit unions to more easily access the kinds of card services that are standard throughout the financial services sector and to offer members an enhanced range of products and access points, including through the Post Office system.

### ***Serving members in large rural areas***

A number of credit unions in the region, particularly in Cumbria and in Northumberland, serve dispersed populations in large rural areas. In Cumbria, for example, 51.6% of the population live in rural areas, as compared with 19% in England (VAC 2010). In Allerdale, where one credit union operates, 70% of the population live in a rural area, and in Eden, where work is being undertaken to establish a new credit union, it is 71.5%.

In addition, 40% of all people classed as income deprived in Cumbria live in a rural area, accounting for 10% of the rural population, which is higher than the national average of income deprivation at 9% of the general population (VAC 2010). Rural poverty, although often hidden and dispersed, can be as prevalent as in more urban communities.

Credit unions, and those working to establish new credit unions in Cumbria, stressed how, even though developing a credit union in an urban environment is challenging, it is much more challenging to develop one that serves dispersed rural communities. Establishing multiple branches or collection points throughout a wide area is difficult and often not cost-effective and with the difficulties of rural transport, even access to such branches is limited for large sections of the population.

The importance of new technology to reach out to those in rural areas is therefore particularly important. As one participant from a rural study group stressed in the seminar in Kendal, *“the key to our growth is a good internet-based service”*. The development of a modern IT platform infrastructure is one of the drivers of the DWP expansion project, which this participant considered would be highly significant long term to credit unions operating in rural areas. As he noted:

*“A medium-term benefit for smaller unions like us [of the DWP expansion project], might be the development of sophisticated IT services that we could plug into, and thereby achieve faster growth in member products and services beyond which we can ourselves provide”*.

However, even now, for rural credit unions, the greater use of PayPoint-style electronic payment cards for deposits and pre-paid debit cards for withdrawals could expand

accessibility and, given volume, could cut down the need to run expensive outreach locations in dispersed rural communities.

## **5.6 Partnership working**

Credit unions in the North East and Cumbria have established strong partnership working with local authorities and social housing providers, and in places with money and debt advice services, employment and training agencies, schools, tenants and residents associations, community centres and local churches. Several credit unions are involved in area action partnerships, and are strong players in local community networking. Partnership working is important to credit unions as it strengthens their capacity to reach out to, and deliver, appropriate financial services to particular target groups.

Partnership working also directly strengthens a credit union's organisational capacity. In the region, there are multiple examples of partner agency representation, particularly local authorities and social housing providers, having representatives on credit union boards and offering advice and expertise. Partners regularly support development with grant funding or in-kind support; and many offer free accommodation for local collection points. Skill transfer schemes are important. Bridges Community Bank was recently advised by the Northern Rock Bank in rebranding following its merger with Wearside First Credit Union.

### ***Partners need credit unions that can deliver***

However, in research interviews with a number of partner agencies, there was a sense of frustration that credit unions do not seem to be developing as strongly or as fast as these agencies would have expected. Partners increasingly want credit unions that can deliver and that have the capacity to widen access to financial services for many more people. Local authorities and social landlords want credit unions to be organisations with which they can do business, and which offer a consistency in product quality and service delivery.

If credit unions in the region are able to strengthen their capacity, operations and product offering, there is undoubtedly significant potential to collaborate on a much greater scale with local authorities, social landlords and others in building prosperous, vibrant and cohesive communities. In the immediate term, social housing providers in particular are looking to build links with credit unions in order to assist their tenants to cope with the impending introduction of Universal Credit. But this depends on credit unions having the capacity to offer transaction services and budgeting and bill payment accounts (jam-jar accounts) not to hundreds but to thousands of people.

## **5.7 The challenge of partnership working – the case of Five Lamps**

Five Lamps is a charity and social enterprise established over 25 years ago to support people in communities throughout the North East through the development of enterprise and employment support services and interventions and facilities for young people. It is based in Thornaby, in the Tees Valley, but has offices throughout the North East.

In 2003, Five Lamps established itself as a community development finance institution (CDFI) in order to venture into business and enterprise lending, which it was able to do with the support of the Phoenix Fund. However, in 2007, in response to the financial needs of the people it worked with, many of whom were borrowing from high-cost sub-prime lenders, Five



Lamps decided to venture into personal lending. With financial support of Northern Rock Foundation (NRF), it was able to turn a £80,000 capital investment into 160 low-value loans to low-income families and from then on Five Lamps has become an important player in tackling financial exclusion in the region.

### ***Five Lamps delivered 64% of all Growth Fund loans in the North East and Cumbria***

In the same year, Five Lamps was able to apply for Growth Fund on the back of the success of the NRF project. Tees Credit Union had already gone for Growth Fund but had difficulties in handling credit administration, credit control and management of the contract. So in the absence of strong bids from the credit union sector, Five Lamps was successful in five separate tendering bids and was engaged by the DWP to deliver the Growth Fund throughout the North East. In fact, in the North East and Cumbria, Five Lamps has delivered more Growth Fund loans with a much greater total value than all the credit unions in North East and Cumbria put together. According to figures supplied by the DWP, over the period of the Growth Fund, Five Lamps delivered 64% of all loans made in the region, which accounted for 55% of the total monetary value of the regional Growth Fund. Five Lamps, from 2007 to 2011, delivered 26,619 loans to a value £8.4 million. Recently, Five Lamps has augmented its capital for on-lending with a £1 million loan, obtained on commercial terms, from the Unity Trust Bank.

### ***Not in competition with credit unions***

However, in interview, the manager of Five Lamps was clear that the organisation was not in competition with credit unions but genuinely wanted to work in partnership with them. In fact, Tees Credit Union is accommodated rent-free in Five Lamps' head offices in Thornaby. Five Lamps reaches out to some of the most financially excluded people in the region and makes loans to them at an interest rate of 39 to 49%, depending on circumstances, and, in addition, makes a £10 set-up charge which pushes the interest rate up even higher. Five Lamps, as the manager explained, had no interest in keeping customers on the books long term. It needs to offer people a pathway into financial inclusion and stability and the most appropriate way to do this is through credit unions. However, given the current capacity of credit unions in the region, the problem is there are very few credit unions with the capacity or skill to take on thousands of customers.

The manager of Five Lamps explained the problem in these terms:

*“We need stronger, fit-for-purpose credit unions in the North East. We deal with 12,000 borrowers a year, and after the third or fourth loan, we need to provide a pathway for our customers into a credit union, where they can save and develop financial security. We do not want to become a deposit taker; but the problem is that credit unions cannot cope with the kind of volume of customers we would want to refer to them. We are looking to hand over 3,000 to 4,000 customers a year, and credit unions cannot take so many people. It is a basic issue of capacity and managing risk. Too many credit unions are just too risk averse.”*

This manager, however, was not despondent about the potential of credit unions. On the contrary, he argued that Five Lamps has a good relationship with Tees Credit Union, which he recognised had significant growth potential. With the right entrepreneurial leadership, organisational restructuring, technology, investment and resources, he was convinced that Tees Credit Union could become the kind of credit union Five Lamps is seeking to work with.

## 5.8 Increasing credit union collaboration

Credit unions in the North East and Cumbria are active in towns and villages throughout the region and offer their members a local, affordable and friendly financial service.

However, as this report has shown, most credit unions are, to a greater or lesser degree, under organisational and financial strain. In interviews, many board members and managers regularly returned to the ongoing challenge of generating sufficient income from the business and/or the insecurities of continued dependence on external subsidies.

Despite improvements, the problem with the current model of credit union development is that it depends on each credit union independently developing its own management and operational systems. Every process and procedure has to be replicated over and over again. Not only does this result in wide diversity in product quality and range, it is resource intensive and expensive (cf. Jones and Ellison, 2011).

The focus on individual development has resulted in the strengthening of the credit union system being seen mostly in terms of common bond expansion, mergers and transfers and engagement. Indeed, in many cases, this is often the most logical and feasible strategic way forward. However, if this was seen as the only solution to the strengthening of the sector, it could result in very few credit unions and significant disadvantages in regard to loss of local identity and community engagement. It is not a solution most people seek. Yet, 64% of board members, managers and paid staff in the online survey stated that it was likely that their credit union will have merged with another credit union in five years' time.

### ***The development of a cohesive, networked and integrated system***

However, there is another way forward and this entails a greater focus on collaboration. Internationally, when co-operative banks and credit unions speak of collaboration, they are often referring to a cohesive, networked and integrated system which enables certain operations to be standardised for a group of credit unions and which allows for large-scale integration on routine back office activities. The aim is to enable credit unions collectively to gain economies of scale, to improve the efficiency and effectiveness of operations and service delivery, to enhance brand recognition and strategic marketing and, importantly, to enable smaller credit unions to offer the same level of service as larger institutions. It involves major investment in electronic hubs or back office systems to enable this to happen.

The development of a cohesive, networked and integrated system, on a national rather than a regional basis, is behind much of the DWP approach to credit union expansion (DWP 2011). For those credit unions that are able to participate in the DWP expansion project, collaboration on this scale will offer them a major advance in capacity to deliver an enhanced and modernised range of products and services. Of course, it is a radically new approach to the business and calls for a cultural shift in the way credit unions approach operations.

However, apart from one or two credit unions, most credit unions in the North East and Cumbria would see collaboration at this sophisticated national level to be somewhat distant and, at this stage, not a real possibility. But it could certainly be an approach that credit unions could work towards more locally at a more regional level.

### ***Credit unions open to collaboration***

In interviews, most managers were open to considering regional collaborative approaches to development if these would reduce costs and improve performance and service delivery. Indeed, in recent years, there have been moves to collaborative approaches. There has been

Northern Money and the collaborative work funded by One North East to enable Moneywise Credit Union to offer support to other credit unions. But overall, it is true to say there has not been significant energy put into collaborative approaches in the region.

A move to greater collaboration will be challenging for many credit unions in the region. Historically, credit unions have been divided by geography, capacity, ambition, trade association affiliation and approach to the business. Collaboration would depend on the generation of trust and on the leadership of some credit unions to make it happen. Yet, in the survey, a significant interest in collaboration was revealed, and board members and managers indicated the areas of collaboration that interested the most (Table 5 below).

The two areas of greatest interest were marketing and promotion (81%) and volunteer training and development (81%). These are two areas that traditionally credit unions generally have a keen collaborative interest in. However, it is significant that the next highest area of interest is human resources (75%) and information technology (73%). The least interest was shown in the management and planning of premises, and, in another question in the survey, only 28% of board members and staff members showed interest in a collaborative telephone call centre for the region.

Taking any of these areas forward depends on the collective decision of most credit unions in the region. But it is clear, not just in the North East and Cumbria but in other regions of the country, that the individualised model of credit union development is under severe strain. Other research (Jones and Ellison 2011) has concluded that there is a compelling case to move towards a credit union business model that is based on collaboration and shared services. The reality of individual credit union development on the ground in the North East and Cumbria supports that conclusion.

**Table 5. Do you think your credit union would be interested in greater collaboration with other credit unions in the following areas? Board member and CEO responses** *Top number is the count of respondents, and bottom number is the percentage of the total respondents selecting the option.*

	<b>Very interested</b>	<b>Interested</b>
Back office administration	20	32
	28%	44%
Lending and credit administration	16	34
	22%	47%
Marketing and promotion	26	31
	37%	44%
Financial accounting	16	36
	22%	50%
Compliance and internal audit	14	35
	20%	49%
Information technology	17	34
	24%	49%
Human resources (staffing)	15	39
	21%	54%
The management and planning of premises	7	28
	10%	39%
Volunteer training and development	23	35
	32%	49%

## **6. Building safe and sound credit unions**

There is one fundamental aim that unites all credit unions in the region, of whatever size and approach to the business, and that is the desire to build safe and sound credit unions in the interests of their members and local communities. It was to support this aim that Northern Rock Foundation supported this study.

It has revealed both the strengths of the regional credit union movement and also many of its stresses and strains. There are major organisational and financial challenges facing credit unions in the North East and Cumbria. The financial challenges may have appeared to predominate in this report; the need to drive down costs through increased efficiencies, to maximise savings, to prioritise income generation through effective lending and to lessen dependence on external financial support.

But these financial challenges cannot be met without also meeting the organisational challenges of developing leadership, good governance and management, and of creating effective and efficient systems and procedures. But even more fundamentally, either set of challenges cannot be met without first changing organisational culture.

Credit unions succeed when directors and managers are imbued with a spirit of enterprise and drive and with a commitment to make sure their organisations succeed as viable, ethical and co-operative financial businesses. In fact, collaboration among credit unions itself depends entirely on a radical increase in the role of operational excellence in the credit union culture (cf. Jones and Ellison 2011).

Of course, there are barriers and blocks to development, and many of these have surfaced in this report. Credit unions can and do often lack resources, investment, adequate support and they also can lack people with the necessary competencies and skills. But there are other barriers too. There is the barrier of fear and anxiety about what the future may hold.

Smaller credit unions may fear that they will be swamped by larger more professional institutions and that the work that they have undertaken assiduously for many years in local communities will be lost. Larger credit unions may fear that a step change in organisational and operational capacity will be a step too far, and through the complexities and uncertainties involved they may lose control of the business with which they are familiar.

However, the choice of standing still no longer seems to exist. With external funding fast disappearing and income not meeting expenditure, credit unions will have to move forward, or stagnate and eventually close. The moving forward will depend on strategic, collective leadership coming from credit unions throughout the region. Certainly, there are many supporters. Evidence in this report shows that partner organisations, including Northern Rock Foundation, are ready and willing to actively engage with credit unions on programmes of radical, organisational change. These will ultimately lead to stronger and safer credit unions and the benefits of credit union membership being brought to many more thousands of people in the North East of England and Cumbria.

## 7. Recommendations

A number of recommendations emerge from the research findings. These are for credit unions, for partner organisations and agencies, and Northern Rock Foundation. Credit unions in the region are characterised by a strong commitment to local communities and to fairness in financial services. Even though individual credit unions exhibit growth potential, research findings indicate that significant organisational restructuring will be required to ensure that credit unions have the capacity to expand their services throughout the region.

### For credit unions

#### ***Governance and management***

1. It is recommended that each credit union formulates a clear statement of purpose, identifying what the directors aim to achieve within the short to medium term. Those credit unions that aim to become modern financial co-operatives with a mission to serve a large cross-section of the population need to think strategically and realistically about their future.
2. A step change in overall board leadership and governance will be required to drive credit unions forward throughout the region. Each credit union needs to adopt, implement and measure board progress against a code of credit union governance.
3. Credit unions need to give greater attention to the management of risk. Each credit union needs to formulate and maintain a risk register covering all the major aspects of the business.
4. Credit unions need to prioritise and strengthen the development of the organisational and financial management skills and technical competence of the staff team.

#### ***Products and services***

5. Credit unions need to significantly improve the business of lending. This will involve the development of a variety of loan accounts at variable interest rates that can compete effectively in the marketplace. In many credit unions, lending products are outdated and unattractive to large sections of the population. It will also involve the introduction of modernised credit assessment tools.
6. Credit unions need to aim to develop a range of savings accounts that pay interest rather than just an annual dividend.
7. Credit unions should adopt market-based principles for pricing. In particular, credit unions need to pay interest and/or dividend rates on savings that reflect those available in market but beat what the banks are paying. On loan rates, credit unions should abandon the idea that all loans should bear the same rate of interest and charge according to the size and maturity of the loan and the risk it presents to the credit union.
8. Credit unions need to continue to work with local government, social landlords and other agencies to widen access to credit union services. In particular, credit unions should consider developing products and services, in partnership with other agencies, to assist their members to manage Universal Credit.

### ***Operational efficiency***

9. Credit unions should endeavour to improve operational efficiency through a rigorous cost analysis of processes, procedures and delivery channels. In general, credit unions need to drive down costs significantly through improving organisational efficiency.
10. It is recommended that credit unions abandon the provision of services and delivery channels that are a net cost to the credit union. In particular, credit unions need to rigorously evaluate the cost-effectiveness of community collection points and services to primary and secondary schools.
11. Credit unions should lessen the amount of activity they do for free.

### ***Electronic delivery channels***

12. Credit unions need to prioritise the introduction and improvement of electronic delivery channels for financial services. These would include internet and telephone access, payment and debit card services with ATM access.

### ***Credit union rationalisation and collaboration***

13. Credit unions should strongly consider merger with another credit union or group of credit unions if evidence suggests that this would collectively strengthen the combined credit unions and enable a larger section of the population to benefit from credit union membership. Leading credit unions should consider strategic mergers and alliances to expand access to credit union services throughout the region.
14. Organisationally and/or economically vulnerable credit unions should implement a managed closure to protect the integrity of the credit union movement, if they are either unable to achieve stability within the short term or to transfer engagements into another credit union.
15. Credit unions should actively support strategic collaborative initiatives between credit unions in the region. This will entail the development of a greater level of trust between credit unions and a recognition that areas of interest and operation will sometimes overlap.
16. Credit unions should work towards the greater harmonisation and standardisation of financial products and services so that the credit union brand can be developed throughout the region.
17. Credit unions should actively consider the development of shared initiatives in credit assessment and debt recovery, and in internal audit.

### ***DWP Credit Union Expansion Project***

18. Credit unions with the capacity should participate, if initial entry criteria are met, in the DWP expansion project. At stage one this is likely only to be possible for one or two credit unions in the region.
19. It is recommended that as many credit unions as possible in the region plan to participate in the second stage of the DWP expansion project through improving organisational effectiveness and capacity and through mergers and alliances if necessary.

## **For credit union partner organisations and agencies**

### ***Engaging with credit unions***

20. It is recommended that local authorities, social housing providers, private sector businesses and other agencies that are concerned to enable greater access to affordable financial services engage with those credit unions that are committed to modernisation and expansion and regard them as partners in strengthening and revitalising local communities.
21. Partner organisations and agencies should ensure that credit unions are presented as co-operative, mutual financial institutions open and accessible to all. They should avoid any terminology or reference that implies that credit unions are solely for the poor and financially excluded.
22. Partner organisations and agencies should facilitate workforce payroll deduction schemes for all credit unions in their catchment area that have the organisational capacity to offer a quality financial service to their staff.

### ***Investment and financial support***

23. Local authorities, social housing providers and other agencies should continue to provide ongoing revenue support to credit unions that can demonstrate adherence to robust business models and progress to self-sustainable development. This will involve a financial analysis of how revenue support is assisting or will assist credit unions to increase income to cover costs through business activity. They could assist vulnerable credit unions to transfer engagements into another credit union. An ethos of self-help and self-sustainable development should be promoted throughout the credit union sector and with partner organisations.
24. Local authorities, social housing providers and other agencies should consider supporting regional credit union development through placing funds on deposit in a credit union, either as regular or deferred shares, and through the making of subordinated loans if and when appropriate.

### ***Skill sharing and the development of technical expertise***

25. Partner organisations and agencies should consider supporting credit unions through training, mentoring and staff secondment opportunities, allowing their staff to transfer technical and management skills into the credit union sector.

## **For Northern Rock Foundation**

### ***Strengthening credit unions***

26. Northern Rock Foundation (NRF) should continue to offer targeted support to credit unions that demonstrate social, economic and market potential, that are working to robust business models and that are developing systems and procedures aimed at ensuring a quality financial service to members. Conversely, NRF should not support credit unions that cannot demonstrate organisational and market potential and a commitment to a robust business model.
27. Northern Rock Foundation should support diagnostic and training interventions to improve the governance and the operational and financial management of credit

unions. This could include systems analysis to drive down costs and improve efficiencies.

28. Northern Rock Foundation should support the introduction of modern electronic systems into credit unions. This could include developments in online banking, credit control and assessment, improved telephony and payment and withdrawal card solutions.

***Rationalisation and expansion***

29. It is recommended that NRF supports strategic actions to rationalise the sector through assisting credit unions to merge through the transfer of engagements.
30. Northern Rock Foundation should actively support the engagement of credit unions with the requisite potential, skill, ambition, and enthusiasm in the DWP credit union expansion programme. This may involve funding preparatory work to ensure credit unions meet the criteria for entry into the programme.
31. Northern Rock Foundation should promote the expansion of the credit union system throughout the North East and Cumbria through the wider dissemination of knowledge of the sector to policymakers and organisations throughout the region.
32. Northern Rock Foundation should play a strategic role in supporting the modernisation, transformation and expansion of the credit union section in the North East of England and in Cumbria.



## Bibliography

- ABCUL (2011), Feasibility Study into the Development of a Single Credit Union in Cumbria. Association of British Credit Unions, Manchester
- Cornforth, C.J. (2003), 'Conclusions: contextualising and managing the paradoxes of governance'. In: Cornforth, C.J. (ed.) *The Governance of Public and Non-profit Organizations: what do boards do?*, London: Routledge
- DWP Credit Union Expansion Project Steering Committee (2011), Feasibility Study Report December 2011
- Fuller, D. and Jonas, A.E.G. (2002), Capacity-building and British credit union development, *Local Economy* 17: 1-6
- Fuller, D. and Mellor, M. (2008). Banking for the Poor: Addressing the Needs of Financially Excluded Communities in Newcastle upon Tyne. *Urban Studies* 2008; 45; 1505
- Fuller, D., Mellor, M., Affleck, A. and Dodds, L. (2003), 'Local to me': advancing financial inclusion in Newcastle upon Tyne. Sustainable Cities Research Institute, Newcastle upon Tyne. Northumbria University
- Hoel, R. F. (2007), *Thriving Midsize and Small Credit Unions*, Filene Research Institute. Madison, WI
- Hoel, R. F. (2011) *Boards and CEOs: Who's Really in Charge?* Filene Research Institute. Madison, WI
- Hoel, R. F., and Kelly W.A, Jr. (1999). *Why Many Small Credit Unions Are Thriving*. Filene Research Institute. Madison, WI
- Hope, S. (2010), *Promoting the Effectiveness and Efficiency of Credit Unions in the UK*. Friends Provident Foundation
- Jones, P.A. (1999). *Towards Sustainable Credit Union Development*, Liverpool JMU, the Association of British Credit Unions Ltd, the English Community Enterprise Partnership and the Co-operative Bank
- Jones, P.A. (2004), *Growing Credit Unions in the West Midlands*. *Journal of Co-operative Studies* Vol. 37: 1 (NO 110) April
- Jones, P. A. (2008), *From tackling poverty to achieving financial inclusion - the changing role of British credit unions in low income communities*. *Journal of Socio-Economics* 37, 2141–2154
- Jones, P.A. and Ellison, A. (2011) *Community Finance for London, Scaling up the credit union and social finance sector*. A report for Santander. Policis and Liverpool JMU
- Mellor, M. and Affleck, A. (2005). *North East Community Banking Partnership*. Sustainable Cities Research Institute, Northumbria University
- Neill M.I (2012). *Attributes and Skills of Highly Effective Credit Union Managers*. Filene Research Institute. Madison, WI
- Richardson, D.C. (2000a), *Unorthodox Microfinance: The Seven Doctrines of Success*. *Microfinance Bulletin*, Calmeadow USA, February 2000
- Richardson, D.C. (2000b). *Model Credit Unions into the Twenty-First Century* in Westley G.D., Branch B.,(Eds.), 2000. *Safe Money: Building Effective Credit Unions in Latin America*. John Hopkins University Press, Washington
- Voluntary Action Cumbria (2010). *The Rural Share of Deprivation in Cumbria*. Action for Communities in Cumbria, Penrith

## Appendix I. Credit unions in the North East of England and Cumbria

### Northumberland, Tyne and Wear

#### **Bridges – Your Community Bank**

(South Shields Credit Union Ltd)  
287 Sunderland Road  
South Shields  
NE34 6RB

Tel: 0191 454 7677

#### **CUSEN**

Credit Union for South East  
Northumberland Ltd  
47 Sycamore Street  
Ashington  
Northumberland  
NE63 0BE

Tel: 01670 522 779

#### **Gateshead First Credit Union Ltd**

St. Joseph's Emmaus Centre  
Walker Terrace  
Gateshead  
NE8 1EB

Tel: 0191 478 4220

#### **Moneywise Credit Union Ltd**

187–189 Shields Road  
Byker  
Newcastle upon Tyne  
NE6 1DP

Tel: 0191 276 7963

#### **Northern Oak Credit Union Ltd**

72 Howard Street  
North Shields  
NE30 1AF

Tel: 0191 296 2611

#### **Northumberland Credit Union Ltd**

37 Shields Road  
Morpeth  
Northumberland  
NE61 2SA

Tel: 01670 503 666

#### **Shiney Row Credit Union Ltd**

15 Beatrice Terrace  
Shiney Row  
Houghton-le-Spring  
DH4 4QW

#### **Shiremoor Credit Union Ltd**

Shiremoor Advice & Community  
Centre  
60 Park Lane  
Shiremoor  
Newcastle upon Tyne  
NE27 0TL

Tel: 0191 268 7280

#### **Walker Credit Union Ltd**

Walker Resource Centre  
1419 Walker Road  
Newcastle upon Tyne  
NE6 3LA

Tel: 0191 265 3766

## Durham and Tees Valley

### **5 Communities Credit Union Ltd**

The Resource Centre  
Bishopton Road  
Middlesbrough  
Cleveland TS4 2RP

Tel: 079873 622739

### **Durham Credit Union Ltd**

136 Edge Court  
Gilesgate  
Durham  
County Durham DH1 2XG

Tel: 0191 375 7677

### **Hemlington Credit Union Ltd**

4 The Viewley Centre  
Hemlington  
Middlesbrough  
Cleveland TS8 9JH

### **Prince Bishops Community Bank (Credit Union) Ltd**

25-33 Front Street  
Stanley  
Co. Durham  
DH9 0JE

Tel: 01207 232351

### **South Central Middlesbrough Credit Union Ltd**

c/o Linthorpe United Reform Church  
Clive Road  
Linthorpe Road  
Middlesbrough  
Cleveland TS5 6AG

### **Cestria Credit Union Ltd**

Birtley Leisure Centre  
Durham Road  
Birtley  
County Durham  
DH3 2TB

Tel: 0191 492 2777

### **GLEN Credit Union Ltd**

5 Farndale Square  
Dormanstown  
Redcar  
Cleveland TS10 5HE

Tel: 01642 488227

### **Money Tree Credit Union Ltd**

c/o Redcar & Cleveland CU  
Development Agency  
5 Farndale Square  
Redcar  
Cleveland TS10 5HE

Tel: 01642 488227

### **Shildon Town Credit Union Ltd**

Methodist Church Hall  
Main Street  
Shildon  
County Durham, DL4 1AH

Tel: 07989 687 518

### **TBN Credit Union Ltd**

c/o Area 2 Housing Office  
19 Shelton Court  
The Greenway  
Thorntree  
Middlesbrough  
Cleveland TS3 9PD

Tel: 01642 210915

### **Darlington Credit Union Ltd**

Church Row  
Market Place  
Darlington  
DL1 5QD

Tel: 01325 520005

### **Hartlepool Credit Union Ltd**

3-4 Avenue Parade  
Avenue Road  
Hartlepool TS24 8BB

Tel: 01429 863542

### **Pioneer Credit Union Ltd**

Elder Court Meeting House  
11 Elder Court  
Middlesbrough  
TS1 2SJ

### **South Bank Savings and Loans Credit Union Ltd**

South Bank Neighbourhood Centre  
7 South Terrace  
South Bank  
Middlesbrough  
Cleveland TS6 6HW

Tel: 01642 463700

### **Tees Credit Union Ltd**

South Thornaby Community & Resource Centre  
Havilland Road  
Thornaby  
TS17 9JG

Tel: 01642 753517

## Cumbria

### **Allerdale Credit Union Ltd**

22-24 Moorbanks Road  
Workington  
Cumbria  
CA14 3XP  
Tel: (01900) 63642

### **Carlisle and District Credit Union Ltd**

95 Lowther Street  
Carlisle  
Cumbria  
CA3 8ED  
Tel: 01228 594007

### **Cleator Moor and District Credit Union Ltd**

Cleator Moor Council Centre  
The Square  
Cleator Moor  
Cumbria  
CA25 5AP  
Tel: 01946 817508

### **Millom and District Credit Union Ltd**

3 Market Square  
Millom  
Cumbria  
LA18 4HZ  
Tel: 01229 775877

### **Whitehaven Egremont and District Credit Union Ltd**

24 James Street  
Whitehaven  
Cumbria  
CA28 7HZ  
Tel: 01946 66755

## Appendix II. Credit union statistics

17 of the 31 credit unions in existence at the start of the study shared their audited annual financial returns. These figures are taken from these returns except in the case of Allerdale and Millom (for 2011 only), where they were taken from unaudited accounts. The figures relate to the end of the financial year (in all but one case, end September).

Credit Union		Assets £	Loans £	Shares £	Members	Junior	NQM
1. Money Tree	2010	42,136	11,221	32,620	216	84	0
	2011	64,297	9,516	52,007	293	281	0
2. GLEN	2010	69,305	20,420	54,399	216	175	19
	2011	59,338	14,413	42,490	191	331	9
3. Allerdale	2010	361,442	211,540	220,648	1,904	791	3
	2011	475,000	297,206	296,929	2531	1287	0
4. Millom and District	2010	235,691	205,633	221,223	612	53	15
	2011	263,380	229,522	250,123	840	50	20
5. Durham	2010	249,697	50,191	179,236	435	143	0
	2011	389,721	56,247	249,901	790	455	0
6. CUSEN	2010	260,727	92,569	115,686	951	69	0
	2011	382,956	154,055	141,754	1212	55	5
7. Cleator Moor	2010	363,799	230,870	322,303	797	280	0
	2011	503,319	379,044	316,926	1336	308	3
8. Hartlepool	2010	431,586	230,938	336,751	2265	1541	61
	2011	358,694	59,019	248,026	1620	1404	6
9. Tees	2010	444,026	185,785	297,339	1236	412	19
	2011	533,561	217,081	372,070	1310	434	28
10. Northern Oak	2010	468,554	251,097	357,930	1087	90	21
	2011	482,496	296,632	388,907	1290	93	1
11. Whitehaven	2010	513,724	222,957	297,513	1546	598	3
	2011	556,488	218,450	346,309	1846	695	8
12. Prince Bishops	2010	611,794	361,737	448,342	1063	211	0
	2011	670,106	360,913	489,126	1531	457	0
13. Gateshead	2010	734,382	342,779	652,862	1140	471	5
	2011	736,505	312,964	655,865	1097	446	5
14. Wearside	2010	632,087	453,830	455,408	2221	219	1
	2011	766,118	645,731	571,845	3401	223	1
15. Carlisle	2010	643,632	350,943	367,539	1353	297	7
	2011	994,636	479,318	569,250	1675	348	7
16. Bridges	2010	1,112,792	486,524	826,813	3745	480	4
	2011	1,109,336	675,578	847,670	3649	463	4
17. Moneywise	2010	2,553,514	1,276,654	2,247,112	4498	207	49
	2011	2,590,186	1,515,722	2,277,819	4363	153	37

## Appendix III. Research study participants

The following people participated in the research interviews or in the seminar in Cumbria:

### 1 Interviews

Shelagh Barton, Chair of the Board	Bridges – Your Community Bank
Gavin Hennessey, CEO	
Jane Jewitt, Chair of the Board	Carlisle Credit Union Ltd
Mandy Johnston, Manager	
Elaine Gilmore, Development Worker	Community Ventures Ltd, Middlesbrough
Graham Brewis, Board, Member	CUSEN
Maureen Levy, Development Manager	
Tony Brockley, Manager	Darlington Credit Union Ltd
Sid Rooke, Manager	Durham County Credit Union Ltd
Graeme Oram, Chief Executive.	Five Lamps, Thornaby
Pat Miskimmin, Board Member (Secretary)	Gateshead First Credit Union Ltd
Christine Hathaway, Chair of the Board	GLEN Credit Union Ltd
Marjorie Moss Director	
Norma Johnson, Director	
Shirley Burdett, Director	
Malcolm Elcoat, Chief Executive	Great North 2000 Credit Union Ltd
Andrew Breese, Manager	Moneywise Credit Union Ltd
Alison Baxter, Marketing	
Mark Studholme, Development Officer	Northern Money
David Hall, Manager	Northern Oak Credit Union Ltd
Nic Best, Chair of the Board	Northumberland Credit Union Ltd
Lesley Richardson, Manager	Prince Bishops Credit Union Ltd
Peter Spencer, Chair of the Board	Redcar and Cleveland Money Tree Credit Union Ltd
John Simpson, Treasurer	
Rob Stanway, Director	
Pauline Armstrong, Manager	Redcar and Cleveland Credit Union
June Norman, Development Worker	Development Agency
Tom Williams, Chair of the Board	Shildon Town Credit Union Ltd
Dianne Patterson, Manager	Tees Credit Union Ltd

### 2 Cumbrian credit unions research seminar

John Bailey, Development Manager	Allerdale Credit Union Ltd
Jim Youdale, Treasurer, Board Member	Cleator Moor and District Credit Union Ltd
Dawn Clark, Project Manager	Debt Rescue and Money Advice Partnership (DRAMA), Derwent and Solway Housing Association
Gordon Henry, Development Coordinator	Derwent and Solway Housing Association
Tess Fitzwilliam, Chair of the Board	Millom Credit Union Ltd
Andrea Dockeray, Development Officer	Whitehaven, Egremont and District Credit Union Ltd
Steve McLeod, Volunteer Loan Officer	Whitehaven, Egremont and District Credit Union Ltd

## Appendix IV. Online survey completers

Credit union	Number of completers
1. Allerdale Credit Union	10
2. Bridges Community Bank	11
3. Carlisle and District Credit Union	12
4. CUSEN Credit Union	8
5. Cleator Moor and District Credit Union	8
6. Durham County Credit Union	2
7. Gateshead First Credit Union	2
8. GLEN Credit Union	5
9. Hartlepool Credit Union	3
10. Money Tree Credit Union	6
11. Moneywise Credit Union	14
12. Millom and District Credit Union	3
13. Northern Oak Credit Union	7
14. Northumberland Credit Union	6
15. Prince Bishops Community Bank	1
16. Shildon Town Credit Union	1
17. South Bank Savings and Loans	1
18. TBN Credit Union	1
19. Tees Credit Union	4
20. Wearside First Credit Union	6
21. Whitehaven, Egremont and District Credit Union	24
Plus Redcar and Cleveland Development Agency	3
<b>Total survey respondents</b>	<b>138</b>

## Appendix V. Online survey

### Credit unions in the North East and Cumbria

#### Progress and Strategies for Growth

This survey forms part of a research project, conducted by Liverpool John Moores University, into the strategic development of credit unions in the North East and Cumbria. It is organised with the assistance of credit unions in the region through a Northern Money supported consultation group.

It is ***open to all directors, managers, employees and volunteers in live or work, and residential common bond credit unions in the region*** and is designed to investigate credit union achievements and the issues credit unions currently face.

The research is funded by Northern Rock Foundation, which will use the findings of the research to assess how best it should support the sector in the future.

You are requested to identify yourself (optional) only to allow for the possibility of being contacted for further information if required. All information given will be treated with complete confidentiality.

YOU ARE ASKED TO GIVE YOUR PERSONAL VIEW IN REPLYING TO QUESTIONS IN THIS SURVEY.

- 1 **Name (optional)** -----
- 2 **Gender:** Male / Female
- 3 **Credit union** ----- please tick **one credit union only** – if you are a member of more than one, please choose your main credit union

5 Communities Credit Union	Northern Oak Credit Union	
Allerdale Credit Union	Northumberland Credit Union	
Bridges Community Bank	Pallister Credit Union	
Carlisle and District Credit Union	Pioneer Credit Union	
Cestria Credit Union	Prince Bishops Community Bank	
CUSEN Credit Union	Shildon Town Credit Union	
Cleator Moor and District Credit Union	Shiney Row Credit Union	
Darlington Credit Union	Shiremoor Credit Union Ltd	
Durham County Credit Union	South Bank Savings and Loans	
Gateshead First Credit Union	South Central Middlesbrough Credit Union	
GLEN Credit Union	TBN Credit Union	
Hartlepool Credit Union	Tees Credit Union	
Hemlington Credit Union	Walker Credit Union	
Money Tree Credit Union	Wearside First Credit Union	
Moneywise Credit Union	Whitehaven, Egremont and District Credit Union	
Millom and District Credit Union	Other – please enter	



**4 In which area of the North East or Cumbria is your credit union situated?**

Cumbria  Northumberland, Tyne and Wear  Durham and Tees Valley  Don't know

**5 What is your role in credit union? If you have more than one role please indicate what you consider to be your PRIMARY role only. Tick one box only**

	Primary role
Chair/ President of the board	
Board or committee member	
CEO or manager (paid employee)	
CEO or manager (volunteer)	
Paid staff member	
Volunteer staff member	

**6 How long have you been involved in the credit union movement?**

<i>Less than one year</i>	<i>1–5 years</i>	<i>6–10 years</i>	<i>11–20 years</i>	<i>Over 20 years</i>

**7 What is your age?**

*Under 18 19–25 years 26–45 years 46–65 years 66–75 years Over 75*

**8 How strongly does each of the following aims describe the purpose of your credit union? Please rank in order of importance. 1 being the most important and 4 being the least important.**

	1 to 4
To serve an economically diverse membership, drawn from all sections of society	
To serve moderate and lower income working people	
To serve members who are financially excluded or living on a low income or welfare benefits	
To serve the needs of the people who run the credit union	

**9 Overall, in relation to the long-term viability of your credit union, how satisfied are you with development in the following areas since 2006 (over the past 5 years):**

	Very satisfied	Quite Satisfied	Neither satisfied or dissatisfied	Quite dissatisfied	Very dissatisfied
Growth in members					
Growth in loans					
Growth in savings					
The quality of service to the members					
Serving a diverse membership					
Serving the financially excluded					

**10 Would you like to make a comment about your answers in the above question?**

---

**11 Which financial institutions do you see as your credit union's main competitors? Please rank in order of importance. 1 being the most important competitor and 6 being the least important.**

Banks

Credit card companies

Home credit companies (doorstep lenders)

Cheque cashers and pay day loans companies (e.g. WONGA)

High cost retail stores (e.g. Brighthouse) and catalogues

Pawn shops, Cash Converters

**12 If your credit union has delivered the Financial Inclusion Growth Fund, has it:**

Significantly helped growth		Somewhat hindered growth	
Somewhat helped growth		Significantly hindered growth	
Neither helped nor hindered growth		Not delivered the Growth Fund	
		Don't know	

**13 Which products and services does your credit union offer, plan to offer or YOU WOULD LIKE TO SEE IT offer in the future?**

	<i>Offer now</i>	<i>Plan to offer in the near future</i>	<i>Would like to see offered in the future</i>	<i>No interest in offering</i>	<i>Don't know</i>
Pre-payment debit cards					
Credit Union Current account					
Benefit direct accounts (direct benefit payments into a credit union account)					
A savings account with an annual dividend					
Savings deposits with interest payable rather than a dividend (when legislation amended)					
Differentiated savings accounts with a range of interest rates					
Loans not linked to savings balances					
A range of loan products at varying interest rates					
Budgeting accounts					
Individual Savings Accounts (ISAs)					
Christmas saving scheme (with locked-in savings)					
International Money Transfer					
Mortgages					
Payment Protection Plan (insurance)					
Home contents insurance					
Car insurance					
Money or debt advice					
Funeral plans					
White goods (like Co-op Electrical)					
Internet access to account management for members					
SMS alerts to members – reminders to repay loans etc.					

**14 How satisfied are you with the range of products and services that your credit union offers at the moment?**

Very satisfied	Quite satisfied	Neither satisfied or dissatisfied	Quite dissatisfied	Very dissatisfied

**15 Do you want to comment on your answer?**

\_\_\_\_\_

**16 Low value loans can often be expensive to administer, do you think your credit union should have greater flexibility on setting loan interest rates? Should therefore the cap of 2% per month be raised by Government?**

Yes  No  Don't know

**17 What do you see to be the major threats facing your credit union at the moment? Please tick the box to indicate the level of the threat currently.**

Level of threat to the credit union	High	Medium	Low
Finding a sufficient number of skilled board members			
Finding enough volunteers to run the credit union			
Affording a paid manager and staff team			
Attracting savings into the credit union			
Getting funds out on loan			
Controlling bad debt			
Making sufficient income to cover costs			

**18 What other threats does your credit union face? Please indicate if they are high, medium or low level threats.**

\_\_\_\_\_  
\_\_\_\_\_

**19 Are you confident that your board of directors has the skills, capability and capacity to lead the credit union?**

Yes  No  Don't know

20 Do you want to comment on your answer?

---

21 Are you confident that your manager and staff team has the skills, capability and capacity to develop your credit union? (your manager and staff team may be employees, volunteers or a mix of both)

Yes  No  Don't know  Not apply

22 Do you want to comment on your answer?

---

23 How dependent is the credit union on unpaid volunteers for the day-to-day running of the credit union?

<i>Very dependent</i>	<i>Somewhat dependent</i>	<i>Not at all dependent</i>	<i>Don't know</i>

24 Do you think dependence on volunteers for the day-to-day running of a credit union helps or hinders growth?

Significantly helps growth		Somewhat hinders growth	
Somewhat helps growth		Significantly hinders growth	
Neither helps nor hinders growth		Don't know	

25 How strongly does your credit union feel part of a credit union movement in the North East and Cumbria or does it feel independent and isolated from others?  
Please tick which applies

<i>Strongly part of a movement</i>	<i>Slightly part of a movement</i>	<i>Neither part of nor independent of a movement</i>	<i>Somewhat independent of a movement</i>	<i>Strongly independent of a movement</i>

26 Has Northern Money contributed to the development of credit unions in the region?

*Strongly assisted development*    *Slightly assisted development*    *Neither assisted or hindered development*    *Somewhat hindered development*    *Strongly hindered development*    *Don't know*    *Not heard of Northern Money*

**27 In the next five years do you think will your credit union:**

	Very likely	Likely	Somewhat likely	Not at all likely	Don't know
Will have grown significantly in members, savings and loans?					
Will have found it much harder to compete in the market place?					
Will have closed down?					
Will have merged with another credit union?					
Will have taken over one or more struggling credit unions?					
Other – please enter					

**28 Other scenario in 5 years? – please enter and state how likely you think your answer will be.**

---

**29 How important to your credit union are the opportunities offered to credit unions through the forthcoming new legislation?**

	Very important	Quite important	Neither important or unimportant	Quite unimportant	Not at all important	Don't know
A more flexible common bond - being able to serve more than one group of people						
Corporate membership of the credit union (community groups, businesses and societies can join)						
Being able to give interest on savings rather than just a dividend						

**30 Do you think your credit union would be interested in greater collaboration with other credit unions in the following areas?**

	<i>Very interested</i>	<i>Interested</i>	<i>Not interested</i>	<i>Already collaborating with other credit unions</i>	<i>Don't know</i>
Back office administration					
Lending and credit administration					
Marketing and promotion					
Financial accounting					
Compliance and internal audit					
Information technology					
Human resources (staffing)					
The management and planning of premises					
Volunteer training and development					

**31 Do you think that one telephone call centre for all credit unions in the region would be a good idea? This would mean that all members could ring one number for information about their account and their credit union**

Yes  No  Don't know

**32 Please identify the most important challenge facing your credit union today ( in your opinion).**

\_\_\_\_\_

**33 Please identify the most important opportunity for your credit union today (in your opinion).**

\_\_\_\_\_

**34 Do you think that it is important for credit unions to rethink collectively their role and direction in the North East and Cumbria at the present time?**

Yes  No  Don't know

**35 Why do you say this?**

\_\_\_\_\_

Many thanks for participating in this survey



### **Research Unit for Financial Inclusion**

*The Research Unit for Financial Inclusion (RUF) is situated within the Faculty of Health and Applied Social Sciences at Liverpool John Moores University. It undertakes academic, action and evaluative research in a wide range of areas related to the development of financial services for lower income households. RUF has a particular expertise in research aimed at strengthening credit union capacity and effectiveness.*

*For further information on RUF see:*

*<http://www.ljmu.ac.uk/HEA/financialinclusion/index.ht>*