

CABINET ITEM COVERING SHEET PROFORMA

AGENDA ITEM

REPORT TO CABINET

15 JANUARY 2014

**REPORT OF CORPORATE
MANAGEMENT TEAM**

CABINET DECISION

Access and Communities – Lead Cabinet Member – Councillor David Coleman

TEES CREDIT UNION

1. Summary

Following a request by Cabinet, this report provides members with information in relation to Tees Credit Union, work underway to support its continued development and sustainability and progress to date.

2. Recommendation

Cabinet note the report.

3. Reasons for the Recommendation/Decision

Following recent reports to Cabinet on Welfare Reform, Members requested information in relation to the position of Tees Credit Union.

4. Members' Interests

Members (including co-opted Members with voting rights) should consider whether they have a personal interest in the item as defined in the Council's code of conduct (**paragraph 8**) and, if so, declare the existence and nature of that interest in accordance with paragraph 9 of the code.

Where a Member regards him/herself as having a personal interest in the item, he/she must then consider whether that interest is one which a member of the public, with knowledge of the relevant facts, would reasonably regard as so significant that it is likely to prejudice the Member's judgement of the public interest (**paragraphs 10 and 11 of the code of conduct**).

A Member with a prejudicial interest in any matter must withdraw from the room where the meeting considering the business is being held -

- in a case where the Member is attending a meeting (including a meeting of a select committee) but only for the purpose of making representations, answering questions or giving evidence, provided the public are also allowed to attend the meeting for the same purpose whether under statutory right or otherwise, immediately after making representations, answering questions or giving evidence as the case may be;

- in any other case, whenever it becomes apparent that the business is being considered at the meeting;

and must not exercise executive functions in relation to the matter and not seek improperly to influence the decision about the matter (**paragraph 12 of the Code**).

Further to the above, it should be noted that any Member attending a meeting of Cabinet, Select Committee etc; whether or not they are a Member of the Cabinet or Select Committee concerned, must declare any personal interest which they have in the business being considered at the meeting (unless the interest arises solely from the Member's membership of, or position of control or management on any other body to which the Member was appointed or nominated by the Council, or on any other body exercising functions of a public nature, when the interest only needs to be declared if and when the Member speaks on the matter), and if their interest is prejudicial, they must also leave the meeting room, subject to and in accordance with the provisions referred to above.

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TEES CREDIT UNION

SUMMARY

Following a request by Cabinet, this report provides members with information in relation to Tees Credit Union, work underway to support its continued development and sustainability and progress to date.

RECOMMENDATION

Cabinet note the report.

DETAIL

1. Tees Credit Union (TCU) was established in 1993 and was originally known as Thornaby Credit Union, offering savings and loans to those who lived or worked in Thornaby. By 2009 it had implemented its plans to expand coverage across the whole Borough encompassing the business of Central Stockton and Stockton North's Credit Unions (the only other registered credit unions in the Borough).
2. TCU is regulated and controlled by the Financial Conduct Authority with members finances safeguarded through the Financial Services Compensation Scheme up to a limit of £85k.
3. A credit union is a community-based financial co-operative that provides affordable financial services to its members. The membership is based around a common bond which currently restricts TCU to an area of operation across the borough of Stockton-on-Tees.
4. TCU has its own governance arrangements in place via a Board of 7 Trustees, 2 of who assist with the operational running of TCU. It has 2 paid employees (The Manager and administrative support) and a number of volunteers. It is currently producing a volunteer information pack to help with the recruitment of additional volunteers to grow its operating capacity.
5. TCU is currently funded through a mixture of grants from health funding and Tristar Homes, alongside its income from loans, which supports the operational costs. Charities Commission recommendation is that organisations have sufficient reserves to cover a minimum of 6 months operating costs – Tees Credit Union is in a healthy position in relation to this recommendation.
6. Following an approach by TCU to SBC with a request for funding in 2010 TCU were supported in undertaking a self-assessment against the Association of British Credit Unions Ltd standards. This self-assessment and a multi-agency workshop instigated by Alex Cunningham MP identified a number of development strands that were required for the TCU to be in a sustainable position for the future. (See Appendix 1). TCU submitted a successful bid to the

SBC Investment Fund to fund a Compliance Officer to ensure that TCU was fully compliant with ABCUL's code of Governance. (Association of British Credit Union's).

7. TCU were also supported to make bids to the Barclays Community Fund (both of which were unsuccessful – the funding went to larger organisations.)
8. With support from Five Lamps, TCU subsequently submitted a bid to the Northern Rock Foundation to undertake some work on a feasibility study and subsequent development of an outline business plan. The feasibility study identified that:
 - TCU had an emerging business strategy
 - It needed to continue with its efforts to improve governance and operational systems
 - It needed to grow to achieve an improved offer to its customers and in relation to its operational effectiveness, maximise economies of scale and achieve financial self-sustainability (including considering the feasibility of merger)
 - It should consider sharing platforms for membership and operational services with other credit unions under the Northern Money initiatives
 - It required an investment of around £70k to create the required internal capacity
9. Following the receipt of the feasibility study and outline business plan a further bid was made to the 2013 SBC Investment fund which was approved (£43K) and is supporting the work of a multi-agency Change Team established in 2013. The Change Team are assisting TCU in developing and implementing a robust business plan (building on the detail of the outline business plan) to improve its sustainability, further develop its offer, enhance its governance, assess and improve its systems, promote and market its service to reach those most in need of its services and to ensure it is well placed to compete with high-cost lenders. It is expected that a further bid will be made to Northern Rock Foundation to implement specific elements of the new business plan, early in 2014.
10. The Change Team is led by the CEO of Five Lamps. See Appendix 2 for details of Change Team Members.
11. Since the Change Team was established a number of developments have taken place as outlined below. These will be further developed and added to pending the outcome of the Change Matters assessment.

Vision and Culture

- A 'change matters' self-assessment is being undertaken by the development officer, in advance of the development of a revised business plan, with a clear and timely strategic focus that identifies the skills and knowledge required to implement it. The elements within the Change Matters framework are detailed at Appendix 3. Change Matters is a performance framework developed and supported by the Community Development Finance Association.
- Feasibility of other models of delivery is being explored, for example, the DotCommunity model, merger with other credit unions etc.
- A series of key performance indicators have been identified to support TCU Board in monitoring its performance and to help establish growth and capacity targets

Leadership and Management

- Additional Directors have been recruited to the Board, adding to the skills mix
- Further targeting for additional Board Members will take place pending the outcome of a skills audit
- Additional volunteers are being recruited (a volunteer pack, including role descriptors, is being developed to support the recruitment drive early in 2014) to provide additional capacity to deal with business growth.

Governance

- The TCU Board recently took a decision, which has been approved, to extend its common bond area to Durham and North Yorkshire to allow it to operate across other geographical areas at an appropriate point in the future, pending the development of their capacity.

Marketing and Communications

- Payroll deduction scheme has been rolled out across SBC (already in place in Tristar) with plans to reach other large employers, starting with schools.
- Improvements have been made to marketing materials and website
- Additional collection points have been opened (List of collection points is attached at Appendix 4)
- A pre-paid card is being rolled out, which includes cash-back offers and discounts
- Discussions have taken place in relation to having a 'high street presence' and is being considered linked to capacity to service
- Discussions are scheduled to take place with Teesside University in relation to securing additional support for marketing

Business Processes and systems

- Capital has been released to support access to affordable loans
- Feasibility work has been undertaken in relation to establishing online access to accounts and agreement reached on implementation via a web-based system.
- Some systems work has been undertaken, in partnership with Darlington Credit Union, to improve understanding of active membership to support the development of the on-going business model and in relation to sharing back office services with other credit unions

12. Over the last 3 years adult membership has increased by 41% and junior membership by 42%. Following a review of the membership figures and activity and associated data cleansing, by the Development Officer, there are a total of around 800 active adult members of which 232 are borrowers. As a proportion of the borough population and compared with other credit unions the levels of membership are low. This is recognised by the TCU Board and the Change Team. Increasing membership through further product development and promotion is a feature within the business plan but is clearly linked to the need to enhance the capacity of TCU to cope with additional demand through streamlining business processes, making the most effective use of IT as well as recruiting additional volunteers. A clear set of targets for membership growth are being developed alongside a suite of operational and sustainability performance indicators against which the Board can measure and track progress.

13. Tees Credit Union is currently based within South Thornaby Community Centre in office accommodation provided free of charge by Five Lamps. As TCU enhances its capacity alternative accommodation will need to be sourced. It also delivers its services via a network of outreach sites (See Appendix 4).

14. The services currently offered include:

- Regulated savings
- Low cost loans
- Junior savings
- Christmas savings
- Pre-paid card facilities
- A bill-paying budget account
- Direct Debit facilities
- Standing Order facilities
- Family funeral plan
- Money management and budgeting advice
- Access to electrical goods (Co-op)
- Quit and save initiative (smoking cessation and saving service)

15. The changes in relation to the Local Strategic Partnership and its focus on tackling family poverty through 'A Brighter Borough for All' with its priorities of ensuring every child has the best start in life and maximising family income, provide an opportunity for Infinity (the borough's financial inclusion forum) and TCU to link in with the locality forum task and finish groups, particularly in relation to any activity associated with maximising family income. Early discussions have already taken place with Infinity and TCU.

Conclusion

16. The combination of the recruitment of additional directors to the TCU Board, the establishment of the Change Team and the investment via Northern Rock, Tristar and SBC, alongside recognition by the TCU Board of the need for change are starting to see some encouraging steps forward.

17. As can be seen from the rest of the report there is more work to do in order to ensure that Tees Credit Union is well-placed to deliver ethical community financial services and products across the borough in a climate where levels of debt are increasing and the market for high cost and new lending models are rapidly changing. It is anticipated that this positive direction of travel will continue following receipt of the Change Matters assessment, the Sustainable Business Plan and future funding bid to Northern Rock Foundation to support its implementation.

18. Current capacity within TCU is limited; therefore the work to support them in terms of sustainability development needs to be managed strategically, via the Change Team, to avoid the risk of competing and divergent demands on their time.

19. The Change Team are of the view that there needs to be some funding made available in the short-medium term to enhance the capacity within TCU to implement the business plan and recommendations from the Change Team. It is expected that this will be the focus for a submission to Northern Rock Foundation in January/February.

FINANCIAL IMPLICATIONS

20. None

LEGAL IMPLICATIONS

21. There are no legal implications arising from this report.

RISK ASSESSMENT

22. The risk to the Council is assessed as low-medium. Existing management systems and daily routine activities are sufficient to control and reduce the risk.

CONSULTATION INCLUDING WARD/COUNCILLORS

23. N/A

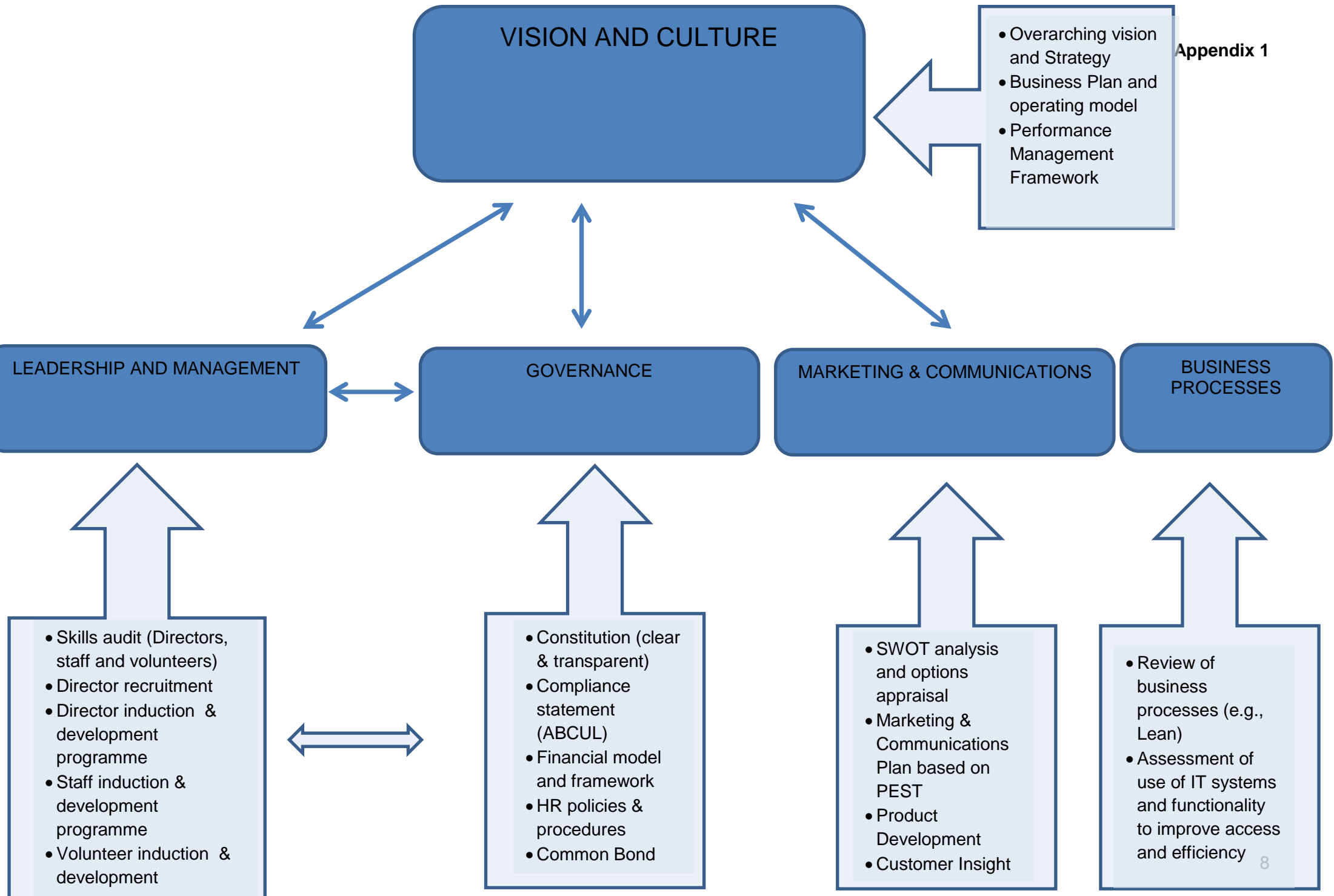
Name of Contact Officer: Lesley King
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Education related? No

Background Papers: None

Ward(s) and Ward Councillors: N/A

Property: N/A



Membership of TCU Change Team

Graeme Oram, CEO, Five Lamps (Chair)
Diane Patterson, Manager, Tees Credit Union
Dave Allsopp, Treasurer, Tees Credit Union
Tony Brockley, Manager, Darlington Credit Union
Julie Danks, Director of Resources, SBC
Lesley King, Head of Policy, Improvement and Engagement, SBC
Kay Glew, Head of Housing Services, Tristar Homes
Steve Rose, Interim CEO, Catalyst
Martin Clinton, retired Principal Stockton Sixth Form College
John Hall, Development Officer (funded via SBC Investment Fund)

Change Matters

Finance Domain

Sustainability and profitability

- Loan fund self sufficiency
- Operational self sufficiency

Asset and Liability Management

- Yield on gross loan portfolio

Portfolio Quality

- Aged Portfolio at Risk
 - Over 30 days =
 - Over 90 days =
- Aged Rescheduled PAR
 - Over 30 days =
 - Over 90 days =
- Write-off annual rate
- Write-off cumulative:

Solvency

- Current Ratio:
- Operating Reserves:

Capital / Liquidity

- Commitments:
- Deployment:
- Liquidity management
- Treasury management

Efficiency / Productivity

- Loan officer productivity:
- Average disbursed loan size:
- Cost per active loan outstanding:
- Operating expense:
- Earned revenue ratio:

Signs of Growth

- Portfolio growth
- Product growth / diversification

Impact Domain

- Mission test
- Outputs
- Outcomes
- Impacts

Business Practice Domain

Human Resources

- Core Values and Organisational Culture
- Board
- Management
- Staff

Strategic planning and budgeting

Risk Management

- Identification and coverage of risks - external
- Identification and coverage of risk –internal
- Identification and management of portfolio risks

Financial Practices and Statutory Requirements

- Internal controls
- Annual audits
- Financial reports (including portfolio management reports and reconciliation with accounting system)

Policies and procedures

Policies:

- Anti-Fraud
- Board Review and Recruitment
- Buildings and Physical Environment
- Equal Opportunities
- Health and Safety
- Insurance
- IT and Communications, including Data Protection
- Liquidity
- Lending
- Loan Loss (write off)
- Provisioning
- Recruitment and HR
- Reserves
- Risk analysis and Management
- Security
- Strategic and Business Planning
- Whistle blowing

Procedures:

- Client Satisfaction
- Communications and PR
- Complaints
- Loan Monitoring

Systems

- Induction
- Training
- Communication
- Performance Management
- Accounting System
- Management Information System
- Client Satisfaction

Market awareness

- Market research and analysis
- Marketing Strategy
- Market visibility