

REPORT TO: NEIGHBOURHOOD RESOURCES & DEVELOPMENT COMMITTEE – 8 MAY 2000

REPORT ON: CREDIT UNIONS IN DUNDEE : FUTURE DEVELOPMENT

REPORT BY: DIRECTOR OF NEIGHBOURHOOD RESOURCES AND DEVELOPMENT

REPORT NO: 329-2000

1.0 PURPOSE OF REPORT

1.1 This report presents proposals for Dundee City Council's support for the development of Credit Unions in Dundee.

2.0 RECOMMENDATIONS

It is recommended that:

2.1 Credit union development in Dundee focuses on Dundee City Council and others facilitating the establishment of a legally and financially independent Dundee-wide Credit Union.

2.2 Discussions are initiated with existing Credit Unions and relevant Council departments – Economic Development, Housing, Finance to agree a way forward.

2.3 A draft Social Inclusion Partnership proposal is prepared for Dundee Partnership.

2.4 Contact is established with Association of British Credit Unions (ABCUL) and identified partners to expedite progress.

2.5 Current appropriate level of support to existing credit unions is maintained.

3.0 FINANCIAL IMPLICATIONS

3.1 The expenditure related to the recommendations will be contained within the 2000/2001 revenue budget.

4.0 LOCAL AGENDA 21 IMPLICATIONS

4.1 The recommendations in this Report will contribute to achieving the Council's vision of self-sustaining, secure and healthy communities.

5.0 EQUAL OPPORTUNITIES IMPLICATIONS

5.1 The development of Credit Unions will make a significant contribution to equalling opportunities and addressing factors which contribute to social exclusion.

6.0 BACKGROUND

6.1 Credit Union development in Dundee has been slower than expected since the existing community based credit unions were formed ten years ago. The main significant developments since 1990 have been the formation of the Local Authority staff credit union in 1995 – Tayside Credit Union Limited - and the amalgamation of Menzieshill and Charleston Credit Unions in 1999. The main reasons for this lack of development, many of which are common across the credit union movement in Britain, are listed below.

- A widespread belief within the credit union movement and support agencies (particularly local authorities) that the future of the movement lay in a plethora of small , community-based credit unions serving a recognisable geographic area with a neighbourhood identity
- Legislation interpretation by the Register of Friendly Societies that reinforced the “small is beautiful” viewpoint and restricted credit unions ability to expand both their geographic common bond areas and range of services.

- A view that credit unions were for “poor people” leading to the development of credit unions in areas which were economically deprived and had a low income base. This also meant that credit unions could not often access an adequate reservoir of required skills from within their areas.
- An emphasis on the social development value of credit unions rather than concentrating on credit unions as financial institutions.
- The type of support given to credit unions by support agencies – mostly local authorities, – who supplied community development worker support but did not provide the follow-up support required by the newly formed financial organisations.
- The “plateau effect” reached with volunteers which resulted in burn-out amongst many and a levelling out or cessation of growth at a point below a level of financial viability, or long term sustainability
- The difficulty in maintaining systems integrity and required volunteers skills levels exacerbated by legislative changes

6.2 It should be noted that the above factors relate to the vast majority of community-based credit unions in Scotland and also England and Wales. There are a few community-based credit unions which have thrived but in the main the successful credit unions are those that are based on employment common bonds. The Tayside Credit Union Limited is a good example of this model. These can call upon a numerically large pool of (usually) monthly paid employees and can access vital administrative support such as payroll services.

6.3 All of the factors apply to Dundee where development and subsequent difficulties have mirrored the national picture.

6.4 It was expected that as credit unions become more established these would free up support worker resources to develop new credit unions. The reality is that the community-based credit unions have been unable to progress to a secure level of sustainability.

6.5 While Menzieshill and Charleston Credit Unions have amalgamated it is unlikely that the new Dundee West Credit Union formed by the merger will be on a scale large enough to achieve long term financial viability. A similar situation exists with Finmill Credit Union which is struggling to break even despite receiving substantial grant aid to meet overhead costs.

6.6

Financial support to Community based Credit Unions					
	Finmill	Menzieshill	Charleston	North East	Totals
1992/93 (*)	£3,525.00	£1,098.00	£ 154.00		£ 4,777.00
1993/94	£ 652.00	£1,152.00	£1,644.00		£ 3,448.00
1994/95	£1,059.00	£ 440.00	£ 500.00	£ 646.00	£ 2,645.00
1995/96 (2)	£ 289.00	£ 775.00	£ 866.62		£ 1,930.62
1996/97	£3,150.00	nil	£ 170.00		£ 3,320.00
1997/98	£2,875.00		£ 500.00		£ 3,375.00
1998/99	£3,544.00	£1,415.00	£2,150.00	£2,694.00	£ 9,803.00
TOTAL	£15,094.00	£4,880.00	£5,984.62	£3,340.00	£29,298.62

(*) Includes small projects grant for 20, Grampian Gardens Office.

(2) Does not include rent for shop as this was paid directly from T.R.C. Social Strategy.

7.0 NATIONAL CREDIT UNION DEVELOPMENTS AND REGULATORY CHANGES

7.1 Research carried out on behalf of the Credit Union movement by Paul A. Jones of Liverpool John Moores University has stimulated the Association of British Credit Unions (ABCUL) the main trade organisation to recommend major changes in the way Credit Unions are managed and supported. This position has been endorsed and reinforced by the Treasury Credit Union Task Force Report (the Goodwin Report) published in November 1999. The Report recognises the need for credit unions, particularly because of the withdrawal of banks from many communities and also because approximately 10% of the population do not have access to financial facilities. It echoes the ABCUL view that credit unions are:

“community-based businesses that must be established on sound commercial principles with adequate resources to become financially sustainable”.

7.2 The Government's Task Force identified six essential Elements for a sustainable Credit Union.

- A sufficiently large and diverse common bond
- Inclusiveness (appeal to those with money as well as those in need)
- Sponsorship
- Leadership
- Premises
- An expectation of achieving financial sustainability

7.3 The Financial Services Agency (which now incorporates the Register of Friendly Societies) has brought forward new proposals which reflect the findings of the above research, the recommendations made by the Treasury Task Force and the Registry's own position.

7.4 H.M. Treasury: Access to Financial Services: PAT 14 Report

7.4.1 The H.M. Treasury Policy Action Team 14 produced its report on Access To Financial Services in November 1999. This report endorses and reinforces the findings of Paul Jones' research and the conclusions and recommendations of the Goodwin Report.

7.4.2 The PAT 14 Report is predated by three separate initiatives.

- a) the Treasury's taskforce on bank assistance to the movement
- b) the Government's proposed deregulation package
- c) the Local Government Association's initiative on local authority credit union development activity.

7.4.3 The reason for so much activity is the widespread view that there is scope for development. Credit Unions are making a modest contribution now, but they could in principle attract a bigger membership in future. The key challenge is to ensure that people in low income households, especially those in deprived areas, are part of that expansion.

7.4.4 The credit union movement in Britain, as elsewhere, is essentially made up of:

- a) community credit unions, ie people living in a locality, or belonging to the same community organisation, serving predominantly - although not exclusively - deprived neighbourhoods; and
- b) work-based credit unions, ie people working for the same employer, or in the same locality, or in the same employment organisation.

7.4.5 For the most part, work-based credit unions are made up of people who may not be deprived, although some of them may be relatively low-paid. Being people in regular employment, for the most part in large-scale organisations in the public and private sectors, they are also less likely to be unbanked, although they may prefer to borrow from their credit union, rather than their bank, because of lower interest rates.

- 7.4.6 Combating financial exclusion is not simply a matter of promoting or assisting community credit unions to the exclusion of others. Work-based credit unions can and often do include some of the lowest paid people in the workforce. Also, legislative changes in 1996 included the possibility of a new hybrid type of credit union - people living or working in a particular locality, which could bring together people in employment with others who are less well-off. This option is now the most frequently used common bond for newly formed credit unions; and some existing credit unions have widened their scope by adopting it. The package of further changes proposed last year by the Treasury includes further combined types. So work-based credit unions have the potential to benefit deprived neighbourhoods, and poorer people in general. They are therefore part of the solution.
- 7.4.7 The most successful community credit unions include a high proportion of people in work. Indeed, long-term sustainability is only achievable by community credit unions if they have an appropriate mix of people in work, providing the savings needed to ensure they have the capacity to lend to less well-off people. Without an adequate savings base, no credit union can perform its core lending function. People in work have an obviously greater capacity for saving than those who are not.
- 7.4.8 These changes coupled with a growing awareness and acceptance of the need for the credit union movement to adapt also require support agencies to review their relationship to credit unions and the type of support required to support future development.

8.0 DUNDEE : LOCAL DEVELOPMENTS AND RESPONSE

- 8.1 At present there are technically four community-based credit unions in Dundee – Finmill Credit Union, Charleston Credit Union, Menzieshill Credit Union and North East Dundee Credit Union.
- 8.2 Menzieshill and Charleston are in the process of formal amalgamation to become Dundee West Credit Union while North East Dundee Credit Union has ceased trading and will be dissolved in the near future. None of the community-based credit unions would be financially viable without the continued support of Dundee City Council.
- 8.3 Over the last year Neighbourhood Resources and Development Department support staff have advised the Credit Union Forum (representing all Dundee Credit Unions) of the impending changes and have recommended that the community-based Credit Unions in particular should consider either the amalgamation of the existing Credit Unions or/and the formation of one Dundee-wide Credit Union.
- 8.4 The response has been lukewarm at best from the community-based Credit Unions which have indicated an understanding of the problems facing their organisations but are still of the view that small is best.

9.0 HOW CREDIT UNIONS CAN HELP COMBAT FINANCIAL EXCLUSION

- 9.1 Well-run credit unions, where they exist, are recognised as an alternative to other sources of finance, for people who may not regard banks favourably. Credit Unions offer services that people need, in terms of savings and loans products that are simple, transparent, flexible and low-cost. For people on the margins of mainstream financial services, they offer the only real alternative to the high-cost credit facilities to which unbanked people traditionally turn. The main problems are that there are not enough Credit Unions; those that have been established nationally are not always being run in a businesslike fashion; and few of those serving poor communities have made a significant market penetration. These are the main problems that must be addressed.
- 9.2 Credit unions can also offer a wider range of financial services. Through appropriate partnership with banks and other financial services providers, a Credit Union might offer bill payment facilities; home contents insurance; mail order agency; and specific savings accounts - eg for holidays and weddings. They cannot supplant banks and other providers, but they can work effectively with them, to their mutual benefit. The proposed Central Service Organisation could help promote these partnership arrangements.

10.0 CREDIT UNIONS AND DUNDEE CITY COUNCIL'S ANTI-POVERTY STRATEGY

- 10.1 Credit Unions have the potential to make a significant contribution to the Council's Anti-Poverty Strategy. Development has been mainly concentrated in the large housing estates where issues relating to unemployment, large proportions of householders relying on public funds and often with limited or no access to financial services clearly demonstrates the need for and value of credit unions.
- 10.2 There is also clear evidence that the investment by the local authority has led to the development of valuable financial services and individual and community capacity in those areas currently served by credit unions. Unfortunately a review of the performance of Dundee's credit unions since their formation and a detailed evaluation of one (Finmill Credit Union) illustrates the limitations of current practice and policy.
- 10.3 It is now recognised that the existing policy of supporting small, neighbourhood based credit unions is untenable. Credit unions to be successful and viable required to achieve "critical mass" and be inclusive of both the better off and low income groups. Credit union development within the Councils' Anti-Poverty Strategy needs to take these factors into account as well as the need to bring credit union facilities to a far wider spread of Dundee's citizens.

11.0 CREDIT UNIONS IN DUNDEE : THE FUTURE

- 11.1 In light of the above, it is now felt that Dundee City Council:
- accepts that at least 10% of Dundee's citizens do not have access to financial services and endorses HM Treasury's view that credit unions are appropriate vehicles to provide such services.
 - recognises that existing Credit Unions do not have that capacity to expand their services to the rest of Dundee.
 - accepts the position of the main credit union trade association (ABCUL) and the Treasury Credit Union Task Force that credit unions must be developed primarily as financial institutions albeit with community management and control.
 - agrees that a city-wide Credit Union should be established. This will ensure city-wide coverage, an economically balanced potential customer base and economies of scale.
- 11.2 It is proposed that this new Dundee-wide Credit Union is established alongside the existing Credit Unions. It will be for their members to decide if or when it would be advisable for their Credit Unions to amalgamate with the city-wide Credit Union. The current level of support to existing Credit Unions, appropriate to circumstances, will be maintained.
- 11.3 It has been emphasised in the research findings and by ABCUL that the impetus for starting up a new Credit Union has to come from the target community. A necessary prerequisite is that this (latent) demand is stimulated and facilitated and that appropriate support is available when the demand is clarified.

12.0 THE ROLE OF DUNDEE CITY COUNCIL

- 12.1 The role of Dundee City Council is to facilitate and support setting up a consortium to establish an independent Dundee-wide Credit Union. It should be noted that the Credit Union, if established, will be an independent financial institution owned and controlled by its members. Dundee City Council's legal and financial responsibilities will be limited to any commitments made by the Council to fulfil its support commitment during the setting up phase.
- 12.2 It is, therefore, proposed that Credit Union development in Dundee focuses on Dundee City Council and others facilitating the establishment of a legally and financially independent Dundee-wide Credit Union.
- 12.3 To this end it is also proposed that discussions are initiated with existing Credit Unions and relevant Council departments – Economic Development, Housing, and Finance to agree a way forward.

13.0 CONSULTATION

13.1 The Chief Executive, Directors of Finance, Support Services, Economic Development, Personnel and Management Services, and Housing have been consulted in the preparation of this report.

14.0 BACKGROUND PAPERS

14.1 The following background papers as defined by Section 50D of the Local Government (Scotland) Act 1973 were relied on to a material extent in preparing the above report.

"Towards Sustainable Credit Union Development"; Paul A Jones, John Moores University, ABCUL

"Credit Unions of the Future" (Goodwin Report), HM Treasury Credit Union Taskforce report; June 1999

"Access to Financial Services" (PAT 14) HM Treasury Policy Action Team 14 Report; November 1999

"Financial Services and Markets Bill: Regulatory Impact Assessment", HM Treasury; November 1999

Director of Neighbourhood Resources and Development.....

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