

Meeting:	Cabinet
Date:	Thursday 17 September 2009
Subject:	Credit Union
Key Decision:	Yes
Responsible Officer:	Andrew Trehern, Corporate Director Place Shaping
Portfolio Holder:	David Ashton, Leader of the Council and Portfolio Holder for Strategy, Partnership and Finance
Exempt:	No
Enclosures:	None

Section 1 – Summary and Recommendations

This report sets out a proposal to enable the provision of credit union services to people living and working in Harrow.

Recommendations:

Cabinet agrees:-

- i. Officers should continue to work with M for Money Credit Union, to facilitate the establishment of a credit union within Harrow, to serve people living and working within the Borough.
- ii. Allocate budget resources from the Economic Contingency, to enable the establishment, commissioning and development of the credit union:-
 - 2010/11 - £13,000
 - 2011/12 - £12,000
- iii. Provide a loan of up to £50,000 to M for Money, to be used as a “line of credit”, to enable the provision of loans soon after the commencement of credit union services, within Harrow. This resource will be accounted for on the balance sheet, and will therefore not impact on the revenue account.

- iv. Delegate authority to the Corporate Director Place Shaping, in consultation with the Leader to determine who should initially represent Harrow Council on the M for Money Board of Directors

Reason: (For recommendation)

The provision of credit union services within Harrow, increases the range of regulated financial services available to residents, during a period of national economic recession.

This initiative, which was suggested by the Leader of Council, has been developed as part of the Council's programme of support for residents, during the recession. This initiative relates to the "Improve Support for Vulnerable People" and "Build Stronger Communities" corporate priorities.

Section 2 – Report

Introduction

Credit unions are financial cooperatives owned and controlled by their members and run for the benefit of their members.

Membership of a credit union is based on the idea of a "common bond". This means that all members have something in common, such as living or working in the same area, or working for the same organisation, etc.

There are approximately five hundred credit unions in the UK.

Credits unions in England, Scotland and Wales (but not Northern Ireland) are authorised by the Financial Services Authority (FSA) and members' savings are guaranteed by the Financial Services Compensation Scheme, just as Banks and Building Societies are.

Credit unions offer savings accounts and flexible loans. The range of services that can be provided is constrained by regulation, as is the area of operation of each credit union. However, changes in regulations during the autumn will provide credit unions with flexibility to develop the scope and range of services offered, together with area of operations. However, the new regulations are not expected to come into force until the spring or early summer of 2010.

Credit unions are particularly helpful for people who cannot easily access high street banking services and may otherwise be tempted to use, payday loans, sub prime lenders, or store cards.

Councillor David Ashton, Leader of the Council, asked Officers as part of the work being undertaken to support residents during the recession, to consider the establishment of a credit union available to all residents of the Borough.

Options Considered

As part of the initial feasibility review for the introduction of a credit union in Harrow, it became clear that the establishment of a new stand alone "Harrow credit union" would consume substantial staff and budget resources. Additionally, the risks associated with the establishment of a new stand alone financial enterprise, in particular during the recession, were considered significant. Furthermore, it was likely that it would take two years or more to enable the new credit union to commence trading, and a further two to three years for this to become established. Officers therefore, sought alternative approaches.

Enquiries were made with the London Borough of Hillingdon. Hillingdon's officers advised that the Hillingdon Credit Union operates in the Borough with support from the Council. However, Officers did not consider that the name of the credit union would be particularly helpful in Harrow. Further research showed that the name of many credit unions related specifically to the common bond, and therefore partnering with these credit unions was not considered to be particularly desirable.

As part of the feasibility work in respect of the establishment of a "Harrow Credit Union", contact was made with Credit Union Solutions, a company that provides support services to five credit unions: ie. Thamesbank Credit Union, Havant Area Savers Credit Union, Ealing Credit Union, Shrine Co-operative Credit union and M for Money Credit Union.

The M for Money Credit Union has the potential to be used successfully in Harrow, as there is no obvious link to a place.

The M for Money Credit Union is reasonably well established with 984 customers and £250,000 in assets. The Credit Union has been trading since 2002.

The directors of M for Money Credit Union are keen to work with Harrow, to take advantage of the anticipated regulatory changes, and in particular to expand the "common bond" to include the London Borough of Harrow.

Services to be offered by M for Money Credit Union

M for Money Credit Union offers a number of savings accounts which include one that is linked to loans, a Christmas Club and a Holiday or Special Occasions account. They work in partnership with schools and offer junior savings accounts on which interest is paid.

Interest on loans is capped by regulation at 2% per month of the outstanding balance. This is 26.8% annual percentage rate (APR), but the effective annual rate of interest is 13.47%.

By using a pre-paid debit card the credit union are able to make emergency loans to members within seconds. The pre paid debit card has a unique sort code and account number and operates like a miniature bank account allowing standing orders to be set up from it.

Loans to members where there are payroll deduction facilities available are more generous as to amounts and rates of interest.

Members are able to pay into their credit union accounts using a standing order, Pay Point card supplied by the credit union or deductions from pay.

Payments to members are by cheque, BACS or transfer to a debit card.

Members will receive quarterly statements of their account by post or on demand by e mail.

Dividends and Interest on Savings

As a co-operative, credit unions do not give interest on savings but like many co-operatives they do return any surplus to the membership in the form of a dividend.

At the year end, the auditor undertakes a full audit of the credit union's business and if there is a surplus they consult with the Directors of the Credit Union and decide what, if any, dividend is to be paid.

As the law stands dividends cannot exceed 8%. However, the Legislative Reform Order will introduce an amendment that will allow some accounts to bear interest. It is felt that by this, means potential investors will have a clear indication as to what they will receive at the end of the year in terms of a return on their investment.

Currently, M for Money pays interest on Junior Savings Accounts of 3%. They are allowed to do this because technically Junior Savers are not members of the credit union until they reach 16 years of age.

M for Money will be offering a 'Loyalty Account' which will be interest bearing once legislation permits however there will be conditions limiting the withdrawal of funds during the investment.

Actions to Establish, Commission and Develop M for Money Credit Union

M for Money Credit Union will amend its business plan to include Harrow, following the annual audit in October 2009, in preparation for submission to the FSA.

M for Money Credit Union will develop the submission of the application to the FSA.

Council Officers and M for Money Directors will work in partnership to promote the credit union to associated and interested parties as identified

M for Money Credit Union will enable the training of volunteers from Harrow and assist them to become approved persons recognised by the FSA.

Other Initiatives to Support the Establishment, Commissioning and Development of M for Money Credit Union

M for Money has advised that if they are commissioned to work with the Council they would implement the initiative summarised below:-

- The Council, together with M for Money Credit Union and Harrow Citizens Advise Bureau could develop a Harrow Financial Capability Forum as a vehicle for promoting Financial Capability Education. This has been done in both Hammersmith & Fulham and Richmond to good effect. In both instances the role of the CAB and the council has been crucial but meetings also include community associations, registered social landlords. Best practice is developed, experiences shared and networks constructed.
- The M for Money Credit Union could open up discussions with primary and secondary schools with a view to promoting school savings clubs and Personal Finance Education, developing links with the Personal Finance Education Group for access to free lesson plans and project equipment for all age groups. It would link with parent groups to promote savings products designed to ensure that school based expenditure such as school uniform, school trips and sports equipment can be accessed easily.
- M for Money Credit Union would attend meetings with the RSLs currently partnering with Harrow Council, and the Council's Tenants and Leaseholders Committee, to make them aware of the project and to enlist their support in alerting their tenants to the availability of affordable credit from the credit union.

- M for Money Credit Union will join HAVS and advise its membership about the launch of the credit union across Harrow in the coming months. M for Money will endorse the 'Harrow Compact' and seek to work with the partners in the public and voluntary sector to promote the credit union and encourage active involvement in its development.
- M for Money Credit Union will use introductions made by Council Officers to discuss with management at Harrow PCT how a partnership can be developed with health interests within the borough which would enable both staff and clients to take advantage of credit union services.

Financial Implications

The establishment, commissioning, and development of M for Money operations within Harrow will take time and resources.

M for Money has advised that they will need to deploy additional resources both in terms of staff and marketing/promotional materials and have indicated that they would require the Council to cover these costs up until 31 March 2012, by which time credit union services in Harrow should be reasonably well established, and able to cover all operating costs, through trading activity. M for Money has quoted a figure of £1,000 per month, for start up cost. Assuming commencement of operations in April 2010, a budget figure of up to £25,000, spread over two years will need to be allocated. The budget for this project would be provided by the Economic Contingency.

To enable M for Money to offer loans, as well as savings facilities, soon after the commencement of trading, it is likely that M for Money would require the Council to provide 'a line of credit'. This credit facility, which would be capped at £50,000 would only be drawn down by M for Money as required. The credit facility will be accounted for on the balance sheet, and would therefore not adversely impact the revenue account, unless of course there was a catastrophic failure of the credit union. The Council would earn interest, currently estimated at 3% per annum on money "loaned" to the credit union.

Staffing/Workforce Implications

Experience of developing credit unions across the country, has shown that it is essential that new initiatives are taken forward in a careful way, which builds a low risk customer base, with a reliable income stream, derived from payroll deductions.

The strong advice received from Credit Union Solutions and M for Money Credit Union is that the Council should work to establish a customer base from Council staff, PCT staff, staff from other large employers, prior to rolling out the credit union to the wider community, including residents in Council and registered social landlord housing.

A member of staff from each of the Council's Corporate Directorates has volunteered to join the credit union project team to promote the initiative within their directorates, subsequent to approval by Cabinet and implementation of the credit union role out project.

M for Money will invite Harrow to initially nominate two individuals to join the M for Money Credit Union Board, for a period that will not exceed one year. After this initial period 'Harrow's Directors' will be subject to election by the Credit Union membership, in the same way that all other Credit Union Directors are selected.

It is suggested that authority is delegated to the Corporate Director Place Shaping, in consultation with the Leader of the Council, to determine Harrow's initial Directors.

Unison and GMB have been advised of the proposal and are generally supportive. They have indicated that they expect the Council to find the most efficient and economic set up for potential members, and to ensure that the credit union operates to a public service ethos.

The Head of Payroll Service has advised that it will be possible to introduce payroll deductions to facilitate saving and repayment of loans, by Council staff and elected members.

Legal comments

Section 2 of the Local Government Act 2000 empowers the Council to do anything which it considers is likely to promote the economic or social well-being of the whole or part of its area; or all or any of its residents. This power includes the ability to incur expenditure, give financial assistance or co-operate with or facilitate the activities of any person or body. The proposals set out in this report are within the scope of this provision.

Equalities Impact

The establishment of a credit union within Harrow will increase the range of regulated financial services available to residents of the Borough.

Risk Management Implications

Although the establishment of credit union services within Harrow will be facilitated by the Council, the risk to the Council, both financial and reputational, are considered low given the approach that it is recommended within this report.

The intention is to partner with a well regarded and established credit union. The credit union operations are governed by regulation and the FSA. Well developed operational processes used by M for Money will ensure that operational risks are minimised.

In the unlikely event of a catastrophic failure of the credit union, savers are protected by the FSA compensation scheme. The maximum potential risk to the Council is the value of the loan given under the line of credit of up to £50,000, to M for Money Credit Union.

Performance Issues

There are no National Indicators (NI) that relate directly to credit unions. Given the objective of helping people, especially those with less access to high street lending, during the current economic crisis, there are potentially a number of indicators that could experience an indirect positive effect, e.g.:-

- Crime indicators such as NI 18 Adult re-offending rates, NI 32 Repeat incidents of domestic violence, and NI 38 Drug related offending rate.
- Perception indicators (drawn from the Place Survey) e.g. NI 5 general overall satisfaction with area.

- Health indicators e.g. NI 129 self-reported measure of people's overall health and wellbeing.
- Economy indicator e.g. NI 172 VAT registered businesses in area showing growth.
- There could also be a beneficial indirect effect on partners' indicators e.g. people requiring mental health support owing to economic stress.

Any such change in performance is likely to be small and is not currently capable of being quantified. There is no necessity to revise any related targets.

The proposals would enhance the Borough's standing in relation to economic development at a time of recession, which is currently a focus for the Area Assessment within CAA.

Environmental Impact

There are no direct environmental impacts arising from this proposal.

However, there should be some increase in economic activity which may impact environmental issues.

Section 3 - Statutory Officer Clearance

Name: Steve Tingle	<input checked="" type="checkbox"/>	On behalf of Chief Financial Officer
Date: 24 August 2009		
Name: George Curran	<input checked="" type="checkbox"/>	On behalf of Monitoring Officer
Date: 25 August 2009		

Section 4 – Performance Officer Clearance

Name: Martin Randall	<input checked="" type="checkbox"/>	On behalf of Divisional Director (Partnership Development & Performance)
Date: 24 August 2009		

Section 5 – Environmental Impact Officer Clearance

Name: Andrew Baker	<input checked="" type="checkbox"/>	On behalf of Divisional Director (Environmental Services)
Date: 24 August 2009		

Section 6 - Contact Details and Background Papers

Contact: Andrew Trehern, Corporate Director Place Shaping

Email: andrew.trehern@harrow.gov.uk

Tel: 0208 424 1590

Background Papers: None